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Association of Regional Observatories

The State of Regional Research



While local industries account for the majority of employment, however, traded industries are fundamental to prosperity. We define a cluster as a geographically proximate group of interconnected companies, suppliers, service providers and associated institutions in a particular field, linked by externalities of various types. A major constraint to the analysis of clusters has been the lack of a systematic approach to defining the industries that should be included in each cluster and the absence of consistent empirical data on cluster composition across a large sample of regional economies. The average wage achieved in a region's traded industries tends to determine the local wage and hence drives the region's overall average wage. Many regional economic development initiatives focus heavily on shifting the mix to more 'desirable' clusters. An equally if not more important policy focus is to upgrade the productivity of all the clusters in which the region has a meaningful position. The importance of regions may explain why countries with greater economic decentralization, such as Germany and the US, have been historically successful. Even in a spaceless world, the distribution of firms is not even but random. It is simply assumed ex ante that clustering or co-location is beneficial, and this has led to such arguments being viewed as a panacea for all regional problems. The financial services of the City of London exhibits primarily the characteristics of the pure agglomeration model. The costs of geographical distance are far higher than has previously been supposed. Firms which produce very high value-weight ratio products are actually more sensitive to locational issues than are firms producing low value-weight ratio products. Firms which produce very high value-weight ratio products are actually more sensitive to locational issues than are firms producing low value-weight ratio products. It could be argued that the outstandingly high productivity levels in London distort the UK average. Nevertheless, the poor productivity performance of the South West is somewhat puzzling, since the region does not appear to suffer substantial disadvantage related to any of the Treasury's productivity drivers. Whilst the average skill level of South West residents is relatively high, the average skill level of those individuals who are actually employed within the South West is lower, and lower than that of the UK as a whole. Areas which are nearer to population centres tend to have more highly skilled workforces and to pay higher wages. It is widely believed that there is a lack of venture capital for SMEs at their start-up and early growth stages and evidence of unsatisfied demand for external equity amongst growth-oriented SMEs. Classic venture capitalists cannot be hired straight out of MBA courses or consulting firms, so there is limited scope for quickly increasing the supply of classic venture capital skills. The greatest repository of classic venture capital skills in the UK is found in the business angel community. The supply of 'classic' venture capital is much greater than reflected by the BVCA's statistics. The Regional Enterprise Funds are aiming at the wrong target. The real need is for an expansion of suppliers providing amounts in the £250,000 to £1 million range. UK business angels consistently report that they are unable to find sufficient investment opportunities. Habitual entrepreneurs need to be considered as an important sub-group of entrepreneurs who make a fundamental contribution to the process of wealth creation in society. Policy makers and practitioners need to be aware that relatively few entrepreneurs have the inclination, or the ability, to be significant wealth creators. Policy makers and practitioners may divert scarce resources away from inexperienced entrepreneurs, who own under-performing businesses, towards portfolio entrepreneurs with potential to generate jobs. Novice entrepreneurs should seek to identify additional equity partners who can provide resources as well as entrepreneurial and managerial capabilities. Projections for the East Midlands suggest a continuing shift in employment away from manufacturing and traditional primary industries in favour of services. In some scenarios, and in current labour market projections for the East Midlands, there is potential for growing disparities at several levels. Where the demand for labour is strong enough, as in the south of the region, both claimant and hidden unemployment can be reduced to low levels. Just one-third of the 60–64 year olds non-employed in the South East are sick/disabled, whilst in the North East it is closer to two-thirds. Indeed, our findings are consistent with the view that a shortage of jobs (a 'jobs gap') could well be the key to understanding some of the most striking north–south contrasts in labour market outcomes. Skills shortages in the region were shown to be most serious in construction, manufacturing, health & social work and agriculture, with the most serious skills gaps in the region evident in construction and manufacturing. The White Irish group are the only group where there are high proportions of high achievers amongst young people and very low levels of high achievers among the older groups. Rates of higher-level qualifications are very high among Chinese people. This is particularly true among young Chinese people and particularly in the 25–34 year age group, where 70 per cent hold higher-level qualifications. Faith communities are extensively involved in providing services for older people, children and the more deprived neighbourhoods of the region. Of the faith communities responding to the survey 27 per cent indicate they have received public funding while a majority, 73 per cent, have not. Excluded people and populations are not evenly spread throughout the region. Neither are they heavily concentrated exclusively in certain areas. Hence the importance for a balance between area-based initiatives and other, thematically based, initiatives. Many income-deprived wards lie to the north of the region, in Norfolk and along the Suffolk and Essex coast. There are well-recognised risk factors that precipitate exclusion. These include poverty, unemployment, family breakdown, being in care, school problems, being an ex-prisoner, being a member of particular ethnic minorities, living in a deprived neighbourhood, mental health problems, age and disability. The North East is the second least-deprived of all the regions in England, behind the North West. The East Coast Main Line rail route contributes £100 million annually to the regional economy. Only 27.8 per cent of the region's stock of identified previously developed land is deemed suitable for housing, the lowest of all the English regions. London is the political, administrative, commercial and financial capital where the different sources of power interact to promote the economic growth that the North needs, but the South can only, with difficulty, accommodate. The greater the spatial disparity, the greater the inflationary pressure at any given level of national demand. The income required to maintain a given standard of living is 22% above the UK average in Greater London. High costs in the 'South' should generate incentives for firms and people to locate to disadvantaged regions, but public policy is currently blunting incentives to relocate by offsetting the problems faced by successful congested regions. Worklessness in Hackney is different to worklessness in Hartlepool. It is impossible for the public sector to match the skills of the workforce to the demands of employers. Regional institutions are necessary but not sufficient for reducing economic disparities. Whitehall must 'mainstream' the regional agenda into their spending decisions so that policies in areas such as housing, transport and science policy reduce regional disparities, not reinforce them. The case for a new politics of regional attention must not be seen – as both the Tories and New Labour have tended to – as an act of "redistribution" from a centre that is held rightfully to own the resource or as a concession from a "governing" centre to a "suppliant" or "deserving" periphery. The North West might become the focus of major national scientific investment; Leeds might be favoured for finance. Regional disparities may be part of the equilibrium of the economy, an equilibrium which possibly includes free mobility of labour and which could even equalize utility across regions. Does this economy have a 'regional problem'? The simple answer is 'no'. Regional disparities are not necessarily associated with market failure. It is quite possible that there are equilibrium inequalities, and that no welfare gains are to be had by seeking to remove these inequalities. 'Partnership' works best where there is a reasonable power balance or symmetry between the two levels of government yet the senior partner, the regional government, still has that vital threat of direction. There are a number of additional gaps in our understanding that are of strategic

The Association of Regional Observatories

The Association of Regional Observatories exists to promote the best data and intelligence for England's regions. The work of the Association is directed by a board consisting of representatives from each region – and from across the range of regional organisations. The work of the Association is supported by subscription from each region – with the bulk of resources coming from the English Regional Development Agencies. The aims of the Association are to:

Champion regional data requirements to ensure that the necessary high quality data and intelligence are available to support and inform any and every regional policy;

Help observatories bring together the best data and intelligence from government, academic, and private sector sources, to encourage fresh thinking and create a robust understanding of the English regions;

Provide an exemplary forum for inter-regional collaboration in order to allow for benchmarking, exchange of best practice in research, and the building of a national understanding based on regional knowledge;

Work closely with policymakers to ensure that regional research and intelligence is readily accessible, well understood, and used appropriately;

Promote the observatory movement and its core values of partnership and accessibility in research.

Further information on the Association of Regional Observatories, and each individual regional observatory, is available from the ARO portal at www.regionalobservatories.org.uk

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Foreword

Regions are becoming more significant in England. Referendums on devolution are planned for three northern regions, more institutions have regional tiers and it is increasingly seen that national policy needs to be sensitive to regional differences. In economics, 'new economic geography' has rediscovered the importance of place and proximity in business activity. It has never been more important for regional theory and practice to be brought together.

Regional Observatories, or Regional Intelligence Units, work to provide the best data and intelligence to support policies and strategies in the English regions. In many instances, this, rightly, involves a careful study of the 'home region'. But any such study would be incomplete without being put in the wider context of how regions work. The themes of this reader – productivity, enterprise, skills, quality of life, disparities, governance and research – reflect the current regional agenda, and can help provide that context for regional decision-making. The chapters cover both academic research and applied research in Regional Observatories.

This document is intended for researchers and policy makers in England both at the regional and national level. We hope that it is interesting and informative for those who already work in the regions, and an accessible introduction for those new to this expanding field.



P.N.J. Tucker
Chair of the Association of Regional Observatories
Director of the South West Observatory Core Unit

Contents

Introduction	7	Quality of Life	55
Regional Economic Performance	9	Faith in the Northwest	56
The Economic Performance of Regions	10	Northwest Regional Intelligence Unit and Churches' Officer for the Northwest	
Michael E. Porter		Social Exclusion in the East of England	59
The Rise, Fall and Rise Again of Industrial Location Theory	16	Observatories Social Exclusion Partnership	
Philip McCann and Stephen Sheppard		Housing and Services in the North East	64
Productivity in the South West	22	North East Regional Information Partnership	
Eric McVittie		Quality of Life in Yorkshire and Humber	66
Small Business and Entrepreneurship	27	Ben Smith	
Closing the Regional Equity Gap? A Critique of the Department of Trade and Industry's Regional Venture Capital Funds Initiative	28	Regional Disparities	69
Colin M. Mason and Richard T. Harrison		Twenty-Five Years of Regional Development	70
Differences Between Private Firms Owned by Novice, Serial and Portfolio Entrepreneurs: Implications for Policy Makers and Practitioners	35	R. Ross MacKay	
Paul Westhead, Deniz Ucbasaran and Mike Wright		A New Regional Policy for the UK	73
		John Adams, Peter Robinson and Anthony Vigor	
		An Alternative Regional Strategy	79
		Ash Amin, Doreen Massey and Nigel Thrift	
		Equilibrium Regional Disparities: Theory and British Evidence	84
		Patricia Rice and Anthony J. Venables	
Labour Market and Skills	39	Regional Governance	91
Hidden Unemployment in the East Midlands	40	Is Regional Centralism Inevitable?	92
Christina Beatty, Stephen Fothergill, Tony Gore and Anne Green		The Case of the Welsh Assembly	
The Real North-South Divide?	44	Martin Laffin	
Regional Gradients in UK Male Non-employment		The State of Regional Research	95
Michael Anyadike-Danes		Strategic Gaps in Understanding	96
Skills in the South East	46	West Midlands Regional Observatory	
Joe Cleave		Scalable Vector Graphics for Regional and Local Statistics	99
Qualifications by Ethnicity in London	48	Alan Smith	
Gareth Piggott		Glossary	101

Introduction

Regions play an important role in a number of policy areas in the UK. With a number of responsibilities exercised at the regional level, and a growing amount of national activity expected to be assessed for impact on different regions, a thorough understanding of regions becomes increasingly important.

Regional observatories are partnerships established by Regional Development Agencies and their partners to create, share, and disseminate regional data and intelligence. Working together through the Association of Regional Observatories, the observatories have put together this reader on the state of regional research. In publishing this reader we seek to achieve three things – first, to promote an awareness in the policy community of some of the latest academic thinking about regions and regional development; second, to support the use of rigorous research and evaluation in regional policymaking; and third, to raise awareness of the rich range of exciting research and intelligence produced by regional observatories and others.

The State of Regional Research is a collection of extracts from larger articles and research reports. Individual articles all stand alone, and can be read in any order, although there is a certain thematic progression through the document. The extracts chosen have been selected to present ideas and techniques in an accessible way. The extracts from individual regions attempt to give a taste of the range of work observatories are involved in, but the selection is necessarily somewhat arbitrary. Likewise, it goes without saying that the extracts reproduced here – particularly given the sometimes brutal editing articles have been subjected to – do not necessarily represent the views of individual authors or regional bodies; readers are encouraged to access full articles where they are interested in seeing extracts in context or fuller descriptions of methodology. To aid those tempted to refer to original articles, references within each extract have been left in their original format.

It just remains now to thank those who have helped in preparing this publication. The regional observatories have supplied material, valuable support, and numerous helpful comments. Much of the support for observatory – and ARO – work comes from the English Regional Development Agencies. The Yorkshire and Humber Assembly provided early support for ARO, and guidance for this project. The Office for National Statistics, ippr, and Catalyst have all provided material.

Finally, the Regional Studies Association, and the publisher of their journal *Regional Studies* – Taylor & Francis – have gratefully allowed us to reproduce a number of extracts. The Regional Studies Association play a significant role in advancing research into regions, and it has been a real pleasure to work with Sally Hardy and the rest of their team in the course of this work.



Joby Blume
Association of Regional Observatories

Regional Economic Development

The Economic Performance of Regions

Michael E. Porter

Institute for Strategy and Competitiveness,
Harvard Business School

The Rise, Fall and Rise Again of Industrial Location Theory

Philip McCann and Stephen Sheppard

Department of Economics, University of
Reading; and Department of Economics,
Williams College

Productivity in the South West

Eric McVittie

South West Observatory Business
and Economy Module at the
University of Plymouth

The Economic Performance of Regions

Michael E. Porter

Institute for Strategy and Competitiveness,
Harvard Business School

In this extract, Michael Porter uses the 1997 US Economic Census to examine the impact of traded industries, and clusters, on regional economic performance. The correct policy approach, he argues, is to attempt to improve productivity in those clusters in which a region already has a 'meaningful position', and not to try to shift to hi-tech clusters.

This extract was taken from an article originally published in *Regional Studies* (37.6/7 549-578), Journal of the Regional Studies Association and is reproduced here with the permission of the Publisher, Taylor & Francis Ltd.

Further information on the Regional Studies Association, and the *Regional Studies* journal, is available online from www.regional-studies-assoc.ac.uk.

The distribution of economic activity by industry over geography reveals three different broad types of industries, with very different patterns of spatial competition and different drivers of locational behavior. Distinguishing them is essential in testing hypotheses about regional performance.

The first type of industry in regional economies is *local* industries. In these industries, employment that is evenly distributed across all regions – that is, employment is roughly proportional to regional population. Local industries provide goods and services primarily to the local market, or the region in which the employment is located. Such industries compete in only a limited way with other regions. Most are services including local health services, most utilities, retailing and many types of construction. A few goods producing industries are revealed as local, including bottled and canned soft drinks, newspapers, concrete products and ready-mixed concrete.

A second type of industry is *resource dependent* industries. Employment in these industries is located primarily where the needed natural resources are found, but these industries compete with other domestic and international locations. Examples of such industries include uranium ore, logging, beet sugar, and freight transportation on the Great Lakes.

The third type of industries in regional economies is *traded* industries that are not resource dependent. These industries sell products and services across regions and often to other countries. They locate in a particular region based not on resources but on broader competitive considerations, and employment concentration varies markedly by region. Examples of traded industries



Studies of competitiveness and economic development have tended to focus on the nation as the unit of analysis, and on national attributes and policies as the drivers. As regional scientists and economic geographers have long understood, however, there are substantial differences in economic performance across regions in virtually every nation. This suggests that many of the essential determinants of economic performance are to be found at the regional level.

include aircraft engines and engine parts, motion picture and videotape production, and automobile assembly.

Local industries prove to account for by far the largest share of US private employment, or 67%, which is perhaps surprising in an era where geographic borders are seen as having limited economic significance. Even in a global economy and in a nation (the US) with completely open internal borders, two-thirds of employment is heavily tied to the local market. The ownership of the parent company in local industries may be based elsewhere, but almost all these jobs are inherently local. It should be noted that while the designation as a local industry always reflects the vast majority of industry employment, there are a relatively few cases where a small segment of a local industry is traded. The disproportionate position of Delaware in commercial banks (SIC 6060), for example, reflects Delaware's role as the state of incorporation for many national companies. Our data do not account for these cases.

Traded industries account for about 32% of employment (see Table 2). Natural endowment dependent industries account for only about 1% of employment. In a highly advanced economy such as the US, industries heavily dependent on natural endowments have declined to a minor part of employment, unlike the case in many developing economies.

While local industries account for the majority of employment, however, traded industries are fundamental to prosperity. The average traded industry wage is \$45,040 in 2000 versus \$27,169 for local industries. Traded industries also have higher wage growth, much higher productivity and much higher patenting rates (see Table 2).

We calculated average productivity by industry, defined as sales/receipts/shipments per employee, using data from the 1997 Economic Census. While the data is imperfect due to some data suppression and is only available for 1997, traded industries are revealed to have much higher productivity than local industries, consistent with their higher patenting rates and higher wages. Resource dependent industries fall in between.

Traded industries, then, appear to heavily influence the relative prosperity of regions. Competitive success in traded industries creates demand for local industries serving commercial customers, while the higher wages paid by traded industries heavily influence local house-hold demand.

The rising proportion of local employment may be the result of several factors, including the higher productivity growth of traded industries and the fact that demand for local services tends to go up with prosperity (the 1990s were especially prosperous). An ageing population may also play a part. Also, the trend to greater outsourcing of services arbitrarily shifts the classification of some

While local industries account for the majority of employment, however, traded industries are fundamental to prosperity.

Table 2. Composition of the US economy by type of industry

	Traded industries	Local industries	Natural endowment department industries
Share of employment (%)	31.8	67.4	0.80
Employment growth 1990-2000 (CAGR)(%)	1.7	2.8	-1.0
Average wage (\$)	45,040	27,169	32,129
Relative wage	137.0	82.6	97.7
Wage growth 1999-2000 (CAGR)(%)	5.0	3.6	1.9
Relative productivity	144.1	79.3	140.1
Patents per 10,000 employees	21.1	1.3	7.0
Number of SIC industries	590	241	48

Note: 2000 data, except relative productivity which is 1997 data. Relative wage equals the average wage of the class relative to the overall average (average=100). Relative productivity equals productivity of the class to overall average productivity (average=100). Source: Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School.

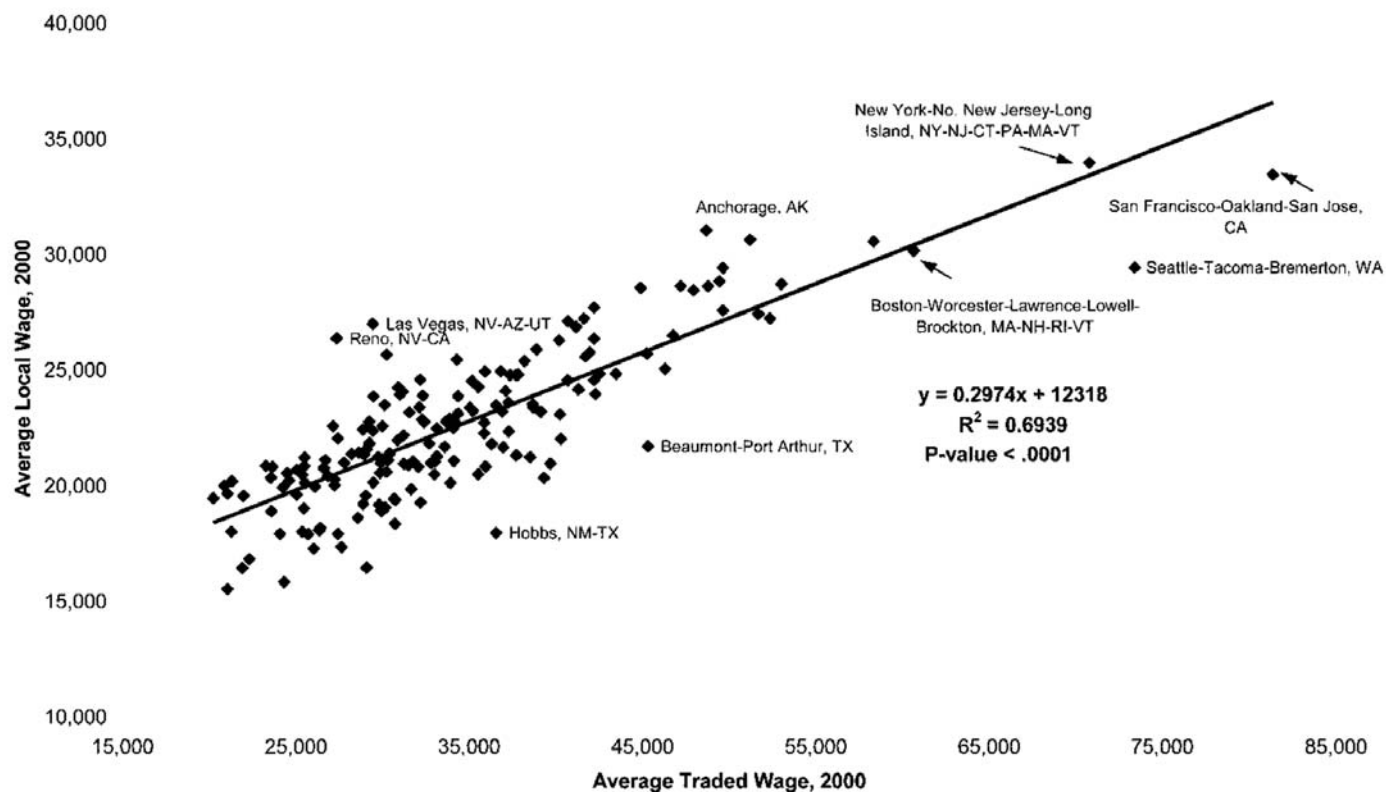


Fig. 17. Average local wages vs. average traded wage by economic area, 2000
 Sources: County Business Patterns; Cluster Mapping Project, Harvard Business School.

employment from manufacturing to services. Since many services are local, this boosts local share. Finally, overly broad industry definition may bury traded services in aggregates involving industries that are predominately local. For example, semiconductor chip design, which is traded and highly concentrated geographically, is part of 'engineering services', much of which is geographically dispersed.

The average level of local wages in a region is strongly associated with the average level of traded wages, as shown in Fig. 17. On average, local wage is 66% of traded wage. Yet, the proportion of traded employment to total employment has a weak relationship with the regional average wage. This suggests that the average wage achieved in a region's traded industries tends to determine the local wage and hence drives the region's overall average wage. Hence the causality appears to go from traded wages to local wages, not vice versa.

Clusters of Traded Industries

One of the most striking features of regional economies is the presence of clusters, or geographic concentrations of linked industries. We define a cluster as a geographically proximate group of interconnected companies, suppliers, service providers and associated institutions in a particular field, linked by externalities of various types. Examples of clusters are financial services in New York (Wall Street), medical devices in Boston, and IT in Austin, Texas and Silicon Valley. Clusters are important because of the externalities that connect the constituent industries, such as common technologies, skills, knowledge and purchased inputs. Note that a given industry can be part of more than one cluster based on different patterns of externalities. Software, for example, is connected with other IT industries in terms of technology and demand, but also linked with medical devices because software is embedded in many types of devices and software development is crucial to medical device product development.

Recent academic and practitioner literature has placed increasing emphasis on industry clustering as a basic feature of regional and national economies, with an important influence on innovation, competitiveness and economic performance.

The average wage achieved in a region's traded industries tends to determine the local wage and hence drives the region's overall average wage.

We define a cluster as a geographically proximate group of interconnected companies, suppliers, service providers and associated institutions in a particular field, linked by externalities of various types.

The industry may not be the appropriate unit of analysis because of the externalities across related industries within clusters. The relevant knowledge spillovers that affect innovation and performance should be strongest within cluster and among related industries. Hence, specialization in clusters, not in industries *per se*, should lead to higher performance. Diversity of clusters in a region rather than diversity of industries may also be a more meaningful diversity measure (KETELHÖHN, 2002). A diverse array of over-lapping clusters (see below) should be associated with better performance than a diversity of clusters that are unrelated.

A major constraint to the analysis of clusters has been the lack of a systematic approach to defining the industries that should be included in each cluster and the absence of consistent empirical data on cluster composition across a large sample of regional economies. Lack of large sample empirical data is understandable, since knowledge spillovers and other positive externalities are difficult if not impossible to measure directly.

We proceed indirectly, using the locational correlation of employment across traded industries to reveal externalities and define cluster boundaries. For example, if computer hardware employment is nearly always associated geographically with software employment, this provides a strong indication of locational linkages. Such a methodology exploits the unique characteristics of the US economy which is by far the largest economy in the world, in which virtually every industry and cluster in any economy is present, and which consists of a large number of distinct but interdependent regions. This approach is not feasible in most if not all other countries.

This process resulted in 41 traded clusters in the US economy, with an average of about 29 industries each. Each cluster has a different geographic pattern of employment. Clusters often contain both manufacturing and service industries as well as industries from various parts of the SIC system. Clusters, then, represent a different way of dividing the economy than is embodied in conventional industrial classification systems that are based primarily on product type and similarities in production.

We expected overlap of industries across clusters, and such overlap was indeed present empirically. Total cluster employment including overlap is 204% of total traded employment in 2000. So that, on average, each industry is part of about two clusters. Fig. 18 provides a schematic representation of those clusters with substantial overlap. Some clusters are linked with several others, such as education and knowledge creation (significant overlap with eight other clusters) and analytic instruments (significant overlap with seven other clusters). Other clusters (e.g. textiles forest products, distribution services) are relatively independent.

Clusters normally designated as 'high-tech' – aerospace engines, aerospace vehicles and defence, analytical instruments, biopharmaceuticals, communication equipment, information technology and medical devices – account for just 8.9% of traded employment and 2.8% of total US private employment. The average high-tech cluster wage is \$63,972 versus \$43,183 for other clusters. The proportion of high-tech employment has a meaningful impact on a region's average wage, which explains 27.0% of the variation in regional average wages. However, high-tech share explains 12.5% of the variation in the average wage in *non*-high-tech clusters, and 14.4% of the variation of *local* wages. Hence success in high-tech clusters does not just raise wages directly, but signals an ability to compete productively and sustain higher wages elsewhere in the economy.

We found that regional high-tech share had no meaningful relationship with employment growth. Also, regions that are growing their high-tech share do not have higher wage *growth* in the region as a whole, nor is growth in high-tech share associated with higher wage growth in non-high-tech clusters. (...) Rather than focusing solely on developing 'high-tech' clusters, then, our data reveal that regions need to upgrade *all* the clusters that are present.

A given cluster can register substantially different average wages in different regions, due to differences in its sophistication and productivity, patterns of unionization and cost of living. In the automotive cluster, for example, Michigan's 296,002 workers in 2000 earned an average wage of \$58,799

A major constraint to the analysis of clusters has been the lack of a systematic approach to defining the industries that should be included in each cluster and the absence of consistent empirical data on cluster composition across a large sample of regional economies.

Many regional economic development initiatives focus heavily on shifting the mix to more 'desirable' clusters. An equally if not more important policy focus is to upgrade the productivity of *all* the clusters in which the region has a meaningful position.

versus \$34,655 in California, \$32,814 in Tennessee and less than \$30,000 in Georgia and Alabama (...). Regional sophistication is revealed in part by the particular subclusters in which the region is strong.

Variation in regional specialization over time

To explore whether regions are becoming more or less specialized by cluster, we calculated GINI coefficient measuring the inequality of the *employment* distribution among the 41 traded clusters within states and EAs. The majority of states (35) had a positive change in the GINI coefficient over the 1990–2000 period signifying greater specialization, while 16 had a negative change.

States that are becoming more specialized have higher wage growth, with the

proportion of explained variance 25–5% (the results are similar for EAs). This provides provocative though not definitive evidence that specialization of a region in an array of stronger traded clusters boosts regional performance.

The Las Vegas EA provides a striking demonstration of the two effects. Competing disproportionately in the cluster with the lowest average wage, hospitality and tourism, Las Vegas is ranked 171 out of 172 regions on the cluster mix effect. However, Las Vegas significantly outperforms the national average in hospitality and tourism cluster average wage, contributing to a high level effect for the region (ranked tenth nationally).

A region's ability to compete in its array of clusters with higher productivity (e.g. better product quality, more advanced service

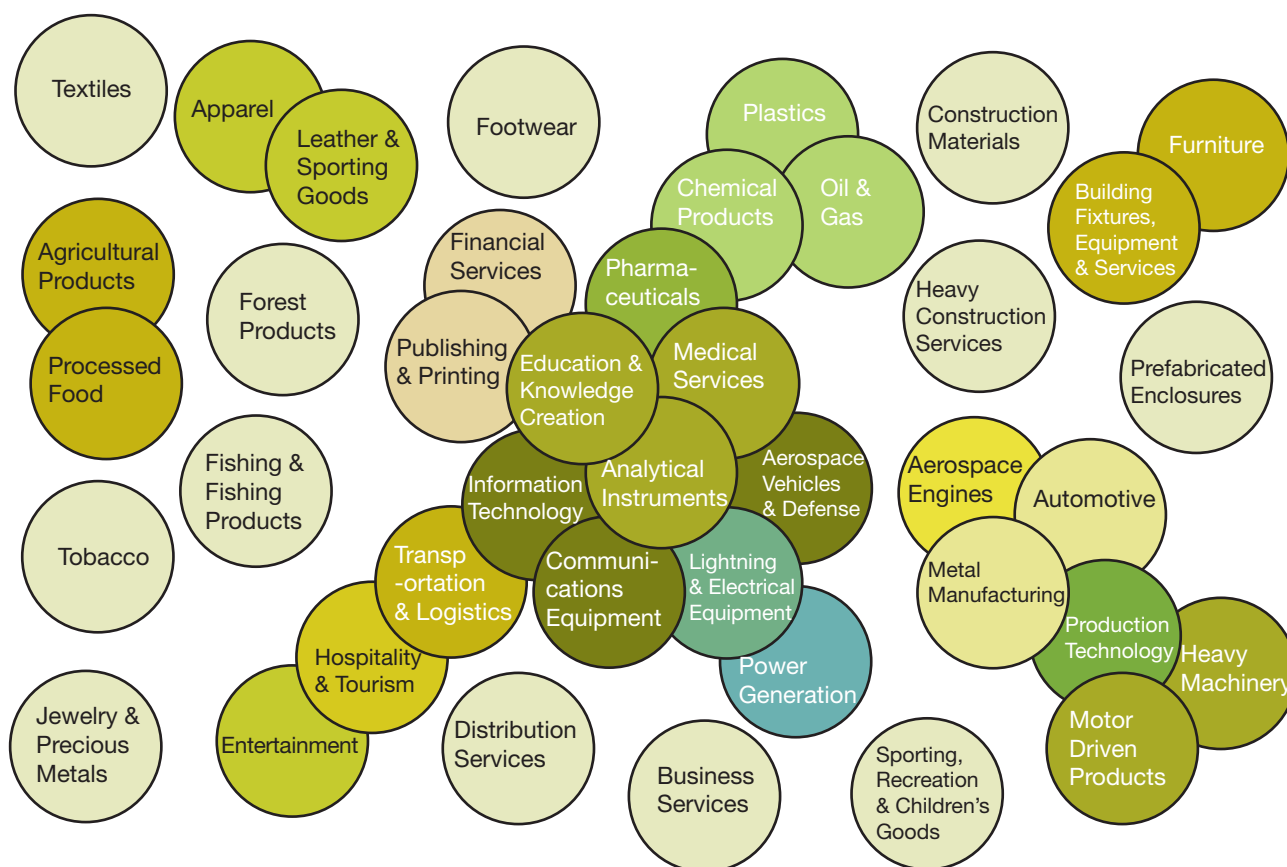


Fig. 18. Schematic diagram of cluster overlap in the US economy

Note: Clusters with overlapping borders or identical shading have at least 20% overlap (by number of industries) in both directions

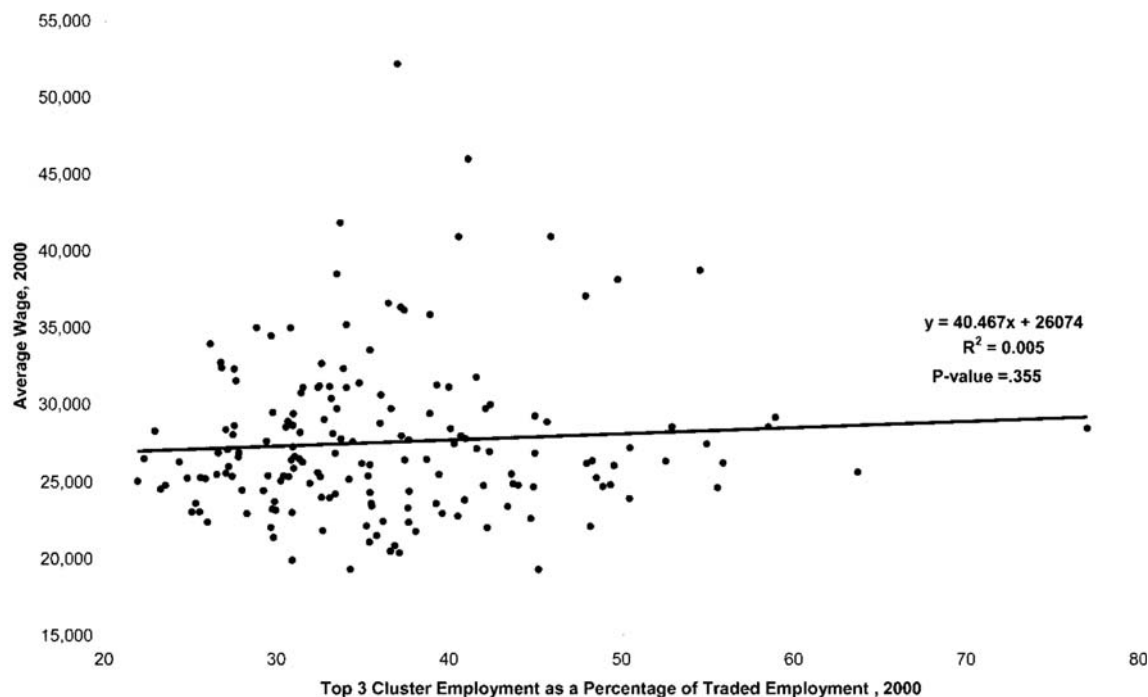


Fig. 23. Average wages vs. the importance of leading clusters by economic area, 2000
Sources: County Business Patterns; Cluster Mapping Project, Harvard Business School.

delivery) has the decisive influence on the region's prosperity. This finding carries important implications of economic development. Many regional economic development initiatives focus heavily on shifting the mix to more 'desirable' clusters. An equally if not more important policy focus is to upgrade the productivity of *all* the clusters in which the region has a meaningful position.

The importance of leading clusters and regional performance

It is widely believed by practitioners and some economic development thinkers that reliance on a few clusters is dangerous for regional economic development because it exposes a region to shocks and business cycles. Many regions, then, set a goal of diversifying the clusters present. Fig. 23 reveals that this hypothesis is not borne out by the data, at least in its simplest form. There is no clear relationship between the importance of the leading clusters (measured by the employment of the top three clusters as a percentage of total traded employment), and average wages. The same is true of wage growth, employment growth and patenting. The results are nearly identical using the top five clusters.

Our findings suggest that regional analysis must become far more central to research and policy formulation in competitiveness and economic development. Our results reveal the need for much of economic policy to be decentralized to the regional level. Since many of the essential determinants of economic performance appear to reside in regions, national policies will be necessary but not sufficient. The importance of regions

may explain why countries with greater economic decentralization, such as Germany and the US, have been historically successful. It may also explain why countries such as India and China are making notable economic progress in particular states or provinces relative to others.

Our findings highlight the need for regional economic development policies to be particularly attuned to traded clusters, because these not only support higher wages but also appear to drive local employment and especially local wages. Regions should focus on upgrading the productivity of all clusters in which they have a meaningful position, rather than attempting to migrate to more 'desirable' clusters.

The importance of regions may explain why countries with greater economic decentralization, such as Germany and the US, have been historically successful.

The Rise, Fall and Rise Again of Industrial Location Theory

Philip McCann and Stephen Sheppard
Department of Economics, University of Reading; and Department of Economics, Williams College

Cluster theory is ill defined, and often postulated in such a way that it cannot be tested. The result is that terms such as ‘agglomeration’, ‘cluster’, and ‘network’ are often used interchangeably, and regional policies are often built on weak analytical frameworks, this piece argues. This extract – from an article rich in economic theory – tries to identify the assumptions in cluster theory, define different types of industrial clusters, and look at how information technologies have made high-value industries the most sensitive to logistics costs.

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Terms such as ‘industrial clustering’ or ‘agglomeration’ are now used more or less interchangeably by many commentators, with little real understanding of the origins, differences or actual meanings of these terms. Similarly, concepts such as ‘new industrial areas’, ‘innovative milieux’ or ‘competitive clusters’ are applied to different situations without any real consideration of the different empirical methods required in order to test whether such claims are justified. At the same time, there is often an inherent bias in the analytical perspective, in that the focus of such discussions is primarily on the advantages of industrial clustering, whereas the forces encouraging industrial decentralization are largely ignored.

From an analytical perspective this bias poses a real problem. The reason for this is that firm clustering and dispersion is a natural outcome of a random process in geographical space (ELLISON and GLAESER, 1997; GABAIX, 1999a, 1999b); even in a spaceless world, the distribution of firms is not even but random. Therefore, how are we to know whether observed firm

location behaviour is a result of microeconomic responses to particular cost and revenue signals or simply a random outcome which is unrelated to the local economic environment? From both an analytical and public policy perspective, the most important issue is this: to be able to distinguish between the conditions under which industrial spatial concentration will take place and the conditions under which it will not. While the stylized models in favour of industrial concentration, such as agglomeration, clustering, new industrial areas, etc. can be very instructive, these models themselves require very careful interpretation in order to confirm that what we are observing is indeed what we are arguing. Without such interpretation, we cannot know the conditions under which the countervailing phenomenon of industrial dispersion will take place. In other words, we cannot specify a null hypothesis. Unfortunately, such careful interpretation is usually lacking, because the analytical limitations of these various models are typically overlooked, as are the empirical requirements needed to substantiate them.

This movement towards providing an analytical framework which is intended to be generally applicable to all sectors and locations has most evidently been observed in the recent work of the ‘new economic geography’ research programme (FUJITA *et al.*, 1999) and also the recent literature on industrial clustering (PORTER, 1990, 1998). Both of these analytical frameworks are based on the crucial assumption that there are many situations in which it is

Even in a spaceless world, the distribution of firms is not even but random.

advantageous for firms to group together in space. However, unlike classical or neoclassical theory, what neither of these frameworks is able to do is to explicitly distinguish between the situations in which it is advantageous for an individual firm to locate close to other firms from the circumstances in which it is disadvantageous for the *individual* firm to do so. Nor does either framework provide a means by which we can identify which particular type of firm will benefit from which particular clustering behaviour. The reason for this is that neither the new economic geography nor the clustering literature explicitly discusses the production function nature of the individual firm; nor does either literature distinguish between the nature of the spatial transactions costs faced by the firm from those production costs which are location-specific. Finally, in tandem with both classical and neoclassical location theory, neither the new economic geography nor the clusters literature raises the issue of the hierarchical definition of the firm, and the problem of whether transactions should be external or internal to the firm. Yet, in discussing the questions of industrial clustering from a microeconomic perspective, these are actually the central issues.

The apparent lack of microeconomic definition and rigour in both the new economic geography and the clusters literature means that there is at present a whole range of microeconomic problems which current thinking on agglomeration and clustering is largely unable to deal with. The result of this is that terms such as 'agglomeration', 'cluster', 'milieux', 'localization', 'complex' and 'network' are frequently used in much of the modern geographical literature in a more or less interchangeable manner, without any real consideration of the microeconomic underpinnings of these different concepts. It is simply assumed *ex ante* that clustering or co-location is beneficial, and this has led to such arguments being viewed as a panacea for all regional problems (MARTIN and SUNLEY, 2001). As such, regional policies formulated on the basis of these arguments, which are explicitly intended to influence firm location behaviour, are often built on very weak analytical frameworks. Yet, underlying these various analytical models there are indeed specific

assumptions concerning the nature of the firm, its production and organizational characteristics and the nature of the transactions costs it faces. Unfortunately, these assumptions are largely unspecified, yet from the perspective of location theory, it is necessary to make these assumptions explicit in order to define the terms of reference within which the location problem can be set.

The Micro-foundations of Industrial Clustering

In order to explain the implicit assumptions concerning firm interdependencies and spatial transactions costs which underlie the various theoretical descriptions of industrial clustering which are currently popular, it is necessary to adopt a transactions costs approach of a type proposed by WILLIAMSON, 1975. However, in our geographical-structural framework it is not sufficient to distinguish between the transactions which are internal to or external to the individual firm, as in the original Williamsonian framework. In adopting the methodological approach of classical location theory it is necessary to distinguish between the transactions which are location-specific from those which are not. In other words, we must explicitly distinguish between the transactions which are internal to, and external to, the spatial industrial cluster. In order to do this we can present three stylized sets of geography-firm-industry organizational relationships evident in situations where firms are clustered or co-located (SIMMIE and SENNET, 1999; GORDON and MCCANN, 2000; MCCANN, 2001a) which we term the *pure agglomeration model*, the *industrial complex model* and the *social network model*. These three stylized characterizations of industrial clusters are distinguished in terms of the nature of firms in the clusters, the nature of their relations, and transactions undertaken within the clusters. What we are not doing here is presenting a new theory of clustering. Rather, our reason for this characterization is to categorize the different transactions cost and firm behavioural assumptions which are implicit in each of the various analytical frameworks which are currently popular. In reality, all spatial clusters or industrial concentrations will contain characteristics of one or more of these ideal types, although one type will tend to be

It is simply assumed *ex ante* that clustering or co-location is beneficial, and this has led to such arguments being viewed as a panacea for all regional problems.

dominant in each cluster. Understanding what are the dominant features of a particular cluster is essential in order to work out how we are to analyse it either theoretically or empirically.

The characteristics of each of the cluster types are listed in Table 1, and as we see, the three ideal types of clusters are all quite different. Firstly, in the model of pure agglomeration, inter-firm relations are inherently transient. Firms are essentially atomistic, in the sense of having no market power, and they will continuously change their relations with other firms and customers in response to market arbitrage opportunities, thereby leading to intense local competition. As such, there is no loyalty between firms, nor are any particular relations long term. The external benefits of clustering accrue to all local firms simply by reason of their local presence. The cost of membership of this cluster is simply the local real estate market rent. There are no free riders, access to the cluster is open, and consequently it is the growth in the local real estate rents that is the indicator of the cluster's performance. This idealized type is best represented by the MARSHALL, 1920, model of agglomeration, as adopted by the new economic geography models (KRUGMAN 1991; FUJITA *et al.*, 1999). The notion of space in these models is essentially urban space, in that this type of clustering only exists within individual cities.

Secondly, the industrial complex is characterized primarily by long-term stable and predictable relations between the firms in the cluster, involving frequent transactions. This type of cluster is most commonly observed in industries such as steel and chemicals, and is the type of spatial cluster typically discussed by classical (WEBER, 1909) and neoclassical (MOSES, 1958) location-production models, representing a fusion of locational analysis with input-output analysis (ISARD and KUENNE, 1953). Component firms within the spatial grouping each undertake significant long-term investments, particularly in terms of physical capital and local real estate, in order to become part of the grouping. Access to the group is therefore severely restricted both by high entry and exit costs, and the rationale for spatial clustering in these types of industries is that proximity is required primarily in order to minimize inter-firm transport transactions costs. Rental appreciation is not a feature of the cluster, because the land which has already been purchased by the firms is not for sale. The notion of space in the industrial complex is local, but not necessarily urban, and may extend across a sub-national regional level. In other words, these types of complexes can exist either within or far beyond the boundaries of an individual city, and depend crucially on transportation costs.

Table 1	Industrial clusters		
Characteristics	Pure agglomeration	Industrial complex	Social network
Firm size	Atomistic	Some firms are large	Variable
Characteristics of relations	Non-identifiable	Identifiable	Trust
	Fragmented	Stable and frequent trading	Loyalty
	Unstable		Joint lobbying
	Frequent trading		Joint ventures
Membership	Open	Closed	Non-opportunistic
Access to cluster	Rental payments	Internal investment	Partially open
	Location necessary	Location necessary	History
			Experience
Space outcomes	Rental appreciation	No effect on rents	Location necessary but not sufficient
Example of cluster	Competitive urban economy	No effect on rents	Partial rental capitalisation
		Steel or chemicals production complex	New industrial areas
Analytical approaches	Models of pure agglomeration	Location-production theory	Social network theory (Granovetter)
		Input-output analysis	
Notion of space	Urban	Local or regional but not urban	Local or regional but not urban

The third type of spatial industrial cluster is the social network model. This is associated primarily with the work of GRANOVETTER, 1973, and is a response to the hierarchies model of WILLIAMSON, 1975. The social network model argues that mutual trust relations between key decision-making agents in different organizations may be at least as important as decision-making hierarchies within individual organizations. These trust relations will be manifested by a variety of features, such as joint lobbying, joint ventures, informal alliances and reciprocal arrangements regarding trading relationships. However, the central feature of such trust relations is an absence of opportunism, in that individual firms will not fear reprisals after any reorganization of inter-firm relations. Trust relations between key decision makers in different firms are assumed to reduce inter-firm transactions costs, because when such trust-based relations exist, firms do not face the problems of opportunism.

This social network model is essentially aspatial, but from the point of view of geography, it can be argued that spatial proximity will tend to foster such trust relations over a long time-period, thereby leading to a local business environment of confidence, risk-taking and cooperation. Spatial proximity is thus necessary, but not sufficient to acquire access to the network. As such, membership of the network is only partially open, in that local rental payments will not guarantee access, although they will improve the chances of access. In this social network model, space is therefore once again local, as with the complex, but not necessarily urban, and often extends over a sub-national regional level. Once again, in this case, both information transactions costs and transportation costs may play a role in determining the importance of geographical peripherality. The major geographical manifestation of the social network is the so-called 'new industrial areas' model (SCOTT, 1988), which has been used to describe the characteristics and long-term growth performance of areas such as the Emilia-Romagna region of Italy (PIORE and SABEL, 1984; SCOTT, 1988).

As we see, each of these different model types has a different notion of geography, a different notion of the production-organizational arrangements of the firms,



and a different notion of the transactions costs faced by the firms. It is important for us to be aware of these fundamental differences, because the techniques that we should adopt to analyse each of these cluster types are quite different. Although in reality many observed spatial groupings of activities will exhibit characteristics of more than one of the stylized characterizations here, it is still necessary for us to decide what is the dominant nature of the cluster, because this will determine the appropriate empirical technique for us to use.

For example, the financial services of the City of London exhibits primarily the characteristics of the pure agglomeration model, although there are also some secondary characteristics associated with the social network model (GORDON and MCCANN, 2000). In this case, real estate capitalization techniques and aggregate production function methods will probably be the most appropriate tools of empirical analysis, supported by various case study techniques. A second example of this concerns the PORTER, 1990, 1998, description of clustering. Although Porter assumes that the dominant competitive effects of clustering are mediated by information flows between firms and individuals within the urban sphere, the primary effect of which is to stimulate local competition by increasing the transparency associated with competitive improvements, he also acknowledges that such information flows are mediated by strong interpersonal networks which may well extend beyond the urban scale in situations where such trust-relations exist. As such, the clustering description of PORTER, 1990, 1998, can also be argued to fit primarily into the pure agglomeration model but also appears to exhibit secondary characteristics

The financial services of the City of London exhibits primarily the characteristics of the pure agglomeration model.

The costs of geographical distance are far higher than has previously been supposed.



associated with the social network category. The empirical techniques used to analyse the Porter model will therefore be similar to those used to analyse the City of London. On the other hand, a third example is the case of Silicon Glen in Scotland. In this particular spatial grouping of firms, the dominant characteristics of the cluster are that of the industrial complex, with some secondary aspects of the social network model embedded within the system. Here, traditional location theory techniques and input–output analysis will be most appropriate, allied with some case study work. In each of these cases, although we acknowledge that the spatial industrial groupings are highly complicated, what we are doing is to determine the dominant characteristics of the inter-firm relationships in order to determine how we are to most appropriately analyse the group empirically.

Logistics Costs

There have been fundamental changes in the nature and levels of spatial transactions costs which have become very evident over recent years. Yet, rather than reducing the importance of location problems it can be

argued that in many cases these changes have actually increased the importance of location as an economic issue.

Since the 1980s we have seen dramatic improvements in the ability of decision makers and planners to coordinate activities across space. The primary reasons for these improvements have been the enormous technological developments in information technology, and also the advent of widespread usage of these technologies.

On the other hand, however, there are some other arguments which suggest that over time the development of these information technologies is actually leading to increases in the costs of transmitting information across space, thereby increasing the relative importance of geographical centrality. The argument here is that an increase in the quantity, variety and complexity of information produced itself increases the costs associated with transmitting this information across space. This is because much of the information will be of a non-standardized tacit nature, and the transmission of this type of information essentially requires face-to-face contact.

Meanwhile, transportation technologies have improved dramatically over recent years. Obvious examples of this include the growth in roll-on roll-off trucking, containerization, rapid-turnaround shipping, and the increased efficiency and frequency of airline services. On the other hand, the quantity, variety and complexity of market information generated in the modern economy is increasing. This also implies that in many industries which involve the production or shipping of goods across space, the variety and complexity of the logistics operations being undertaken will also increase.

In production sectors in which the demand lead-times have fallen dramatically, or in industries in which the variety and complexity of information generated has increased significantly, spatial transactions costs would appear not to have fallen over recent decades, and in some cases will actually have increased.

On the basis of these arguments it is clearly necessary for location theory to develop models which better incorporate issues such as time, financial costs, delivery speed and frequency into the location-production problems than do previous models.

One direction of this research has focused on the role played by the total *logistics costs* faced by firms producing goods, rather than simply the total transport costs that they face (MCCANN, 1993, 1997, 1998). This logistics costs approach incorporates transport costs plus all of the industrial costs associated with inventory holding within the classical Weber-Moses type of framework, and allows for a whole series of new location-optimization conclusions to be generated. In particular, we see that the costs of geographical distance are far higher than has previously been supposed. This is because the inventory capital and space costs faced by firms are co-determined within the transport cost optimization problem (MCCANN, 2001b). An outcome of this is that firms which produce very high value-weight ratio products are actually *more* sensitive to locational issues than are firms producing low value-weight ratio products. This conclusion is completely opposite to the perceived wisdom which assumes that location is largely irrelevant for firms producing very high value-weight

ratio goods. Moreover, the logistics-costs framework also shows that industrial clustering is often a natural outcome for firms producing high value goods, even in situations in which information spillages play no role whatsoever.

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Firms which produce very high value-weight ratio products are actually more sensitive to locational issues than are firms producing low value-weight ratio products.

Productivity in the South West

Eric McVittie

South West Observatory Business and Economy Module at the University of Plymouth

Productivity in the South West is only around 90% of that for the UK as a whole, and this article attempts to explore why, when in terms of the Treasury's five drivers of productivity the region does not perform badly. The answer lies in the number of highly-skilled residents employed outside the region, not employed at all, or only working part-time. Some of this effect is a result of the older population, and peripheral location, of much of the South West. Written for *State of the South West 2004*, this article demonstrates how local knowledge can help to explain phenomena apparent in publicly available statistics.

This extract is taken from *State of the South West 2004*, published by the South West Observatory, and reproduced with permission.

In this chapter we examine the causes and implications of the apparent 'productivity gap' between the South West and the more prosperous UK regions.

The South West ranked 10th among the UK Government Office regions, and last among the English regions, in terms of the standard productivity measure - GVA per hour worked - during 2001. Productivity was only around 90% of that for the UK as a whole according to this measure.

Improvements in 'productivity' are at the centre of the Government's agenda for increasing prosperity in the UK and its regions. Differences in labour productivity account for most of the differences in average incomes between the UK and its more affluent competitors. Moreover, 'significant and persistent' productivity differences are seen to underlie the long-term 'underperformance' and relatively low living standards of some of the UK's poorer regions and sub-regions, relative to London and the South East of England, according to HM Treasury in 2001.

Understanding the Productivity Gap

Productivity in the South West has been consistently below that in other English

regions in recent years (Table 14.1), at around 90% of the level for the UK as a whole. Regional differences in productivity have been fairly stable since 1996 (with the notable exception of the North East).

It could be argued that the outstandingly high productivity levels in London distort the UK average. London's productivity has been consistently around 20% above the UK average (and around 50% higher, if GVA is measured according to the region of work (workplace) rather than the region of residence). Productivity is below the national average in all other regions except the South East and, more recently, the East of England. Productivity in the South West is substantially closer to, although still below, that in the UK outside London.

According to the Treasury, differences in productivity between regions stem from differences in five 'productivity drivers' – skills, investment, innovation, enterprise and competition. Regions do not benefit equally from these productivity drivers because of widespread 'market and coordination' failures that have prevented the spread of economic prosperity from the richer to the poorer parts of the country. Market and coordination failures arise in the location decisions of firms and workers which tend to reinforce existing regional patterns of production. These market failures have to be addressed if the UK and all of its regions are to meet their economic potential: *The challenge for Government is therefore to help to tackle these failures, so as to allow*

It could be argued that the outstandingly high productivity levels in London distort the UK average.

Table 14.1	Productivity measures: 1996 to 2001, Index (UK = 100)					
	GVA per filled job			GVA per hour worked		
	1996	2000	2001	1996	2000	2001
South West	91.3	91.2	89.1	89.4	92.2	90.2
England	100.4	101.0	101.3	100.3	101.0	101.2

Source: ONS Productivity, Q2 2003

those less successful regions to build the conditions for economic success, whilst ensuring that more successful regions and countries continue to flourish (HMTREASURY, 2001).

Regional productivity differences are also likely to be linked to regional differences in industry and firm structures. Data for the UK as a whole show substantial differences in productivity levels for different industry groups. Studies at the level of individual firms also show substantial variations in productivity between businesses, even within the same industry group, and related to factors such as foreign ownership and firm size. Regions with relatively large shares of low productivity industries and firms will tend to have low overall productivity as a result. We might also expect productivity levels to be influenced by regional patterns of 'functional' specialisation: i.e. the extent to which regions are specialised in 'high-level' research & development or managerial functions as compared with lower level operational and production functions.

Research into the determinants of productivity differences among UK regions is severely hampered by the quality of available data. There is widespread concern over the quality of ONS estimates of regional GVA (as reported in the recent report on the quality of regional statistics by Christopher Allsopp). This is, clearly, a major factor in the precision of productivity measures. This suggests that it may not be sensible to read too much into small differences in measured productivity between regions. Data problems also limit the sorts of analysis that can be carried out in trying to understand the reasons for any differences.

The South West also presents a particularly difficult case. Understanding what is driving productivity for such a highly diverse region requires sub-regional analysis, since economic performance is highly variable between different areas of the South West. Data problems are, however, even more serious at a sub-regional level. These

concerns mean that a definitive analysis is not possible at present.

Nevertheless, the poor productivity performance of the South West is somewhat puzzling, since the region does not appear to suffer substantial disadvantage related to any of the Treasury's productivity drivers:

Skills

Workforce skills are widely regarded as essential to high and growing productivity levels. Highly skilled workers are more productive and allow the use of more sophisticated production processes. Highly skilled workers also tend to be more innovative, and better equipped to exploit innovations. We would therefore expect regions with highly skilled workforces to be more productive. The South West has, however, a relatively highly-skilled population, but has relatively low levels of productivity.

Investment

Investment in physical capital (buildings and equipment) expands the productive resources of an economy and also generally results in improvements in technology. However, rates of investment in the South West (per worker or as a proportion of total output) match those for the UK as a whole. The South West does, however, receive relatively little foreign investment. Foreign-owned firms tend to be more productive than their domestically owned competitors, and their presence may also stimulate higher productivity in other local businesses.

Innovation

Innovation relates to the ability of a region to find and introduce new products and processes. We might expect regions with higher levels of innovation to benefit from higher levels of productivity (because of faster access to new and higher value-added products and processes and

Nevertheless, the poor productivity performance of the South West is somewhat puzzling, since the region does not appear to suffer substantial disadvantage related to any of the Treasury's productivity drivers.

because innovation is itself a high value added activity) and faster rates of productivity growth. It must be borne in mind, however, that new ideas may flow fairly freely between regions, reducing the advantages to innovating regions. One measure of the extent of innovative activity is expenditure on Research & Development (R&D) as a percentage of total regional output (GVA). The South West matches the UK as a whole according to this measure, although a relatively small share of R&D in the South West is undertaken by businesses, rather than by government or universities. Overall, however, it seems unlikely that low levels of R&D are the primary cause of the South West's productivity gap.

Enterprise

Enterprise is normally measured by rates of new business formation (as indicated by VAT registrations). There are substantial, and relatively stable, differences in start-up rates across UK regions, with business start-ups particularly concentrated in the higher productivity regions: London and the South East. However, the South West also has a relatively high rate of business start-ups, and a relatively large stock of VAT-registered businesses.

Competition

It is widely accepted that healthy competition acts as a spur to high levels of productivity and productivity growth. The extent of competition facing a particular firm will depend on the number of firms selling similar products and on the ease with which new firms can enter the market. Firms selling widely-traded products will face similar levels of competition, regardless of where they are located. Some products (and particularly services) which are difficult to transport will, however, have localised markets and the extent of competition will vary between areas. It is plausible that competitive pressures will be stronger in and around larger cities, where there are more actual (and potential) suppliers for any given product. However, the importance of these influences for productivity differences between the UK regions is not known.

The South West economy's poor productivity performance cannot be easily explained in terms of the five 'productivity

drivers'. A more detailed analysis does, however, suggest some possible explanations, related to the region's geography and the extent to which its economy utilizes the skills of its workforce.

Productivity and skills

Workforce skills are widely regarded as being central to economic productivity and so to general prosperity. This raises particular issues for the South West, which appears to be relatively highly skilled.

Research by the University of Plymouth (MCVITTIE, 2003) attempted to identify the role, if any, of skills in determining the South West's productivity gap (...) by constructing a skills or human capital index based on qualifications (or other skills indicators) valued according to the earnings they receive within the labour market. The South West Economy Centre constructed a skills index for each of the UK regions and sub-regions, based on the average earnings potential in the UK labour market of each region's population, labour force, and workforce relative to the earnings of low skilled workers. The index takes account of qualifications, work experience and a variety of other personal attributes such as gender, race and health status.

The results of this analysis suggest that the South West has a relatively highly-skilled population, but that the region's high skilled individuals are less likely to be employed (and are more likely to be employed part-time if employed) than similar individuals in most other regions. In addition, very highly-skilled individuals were slightly more likely to be employed outside the South West (particularly in London and the South East) than were lower-skilled residents.

The effect of this was that, whilst the average skill level of South West residents is relatively high, the average skill level of those individuals who are actually employed within the South West is lower, and lower than that of the UK as a whole. This pattern appears to be related to the demographic structure of the South West's workforce. Much of the region's skills base, or 'human capital', is in the brains and hands of older residents, who are more likely to be economically inactive or to work shorter hours.

Whilst the average skill level of South West residents is relatively high, the average skill level of those individuals who are actually employed within the South West is lower, and lower than that of the UK as a whole.

Overall, this analysis suggests that differences in skills levels explain some of the measured productivity differences between the UK regions, and between the sub-regions of the South West. Regions with more skilled workforces do, in general, have higher productivity levels.

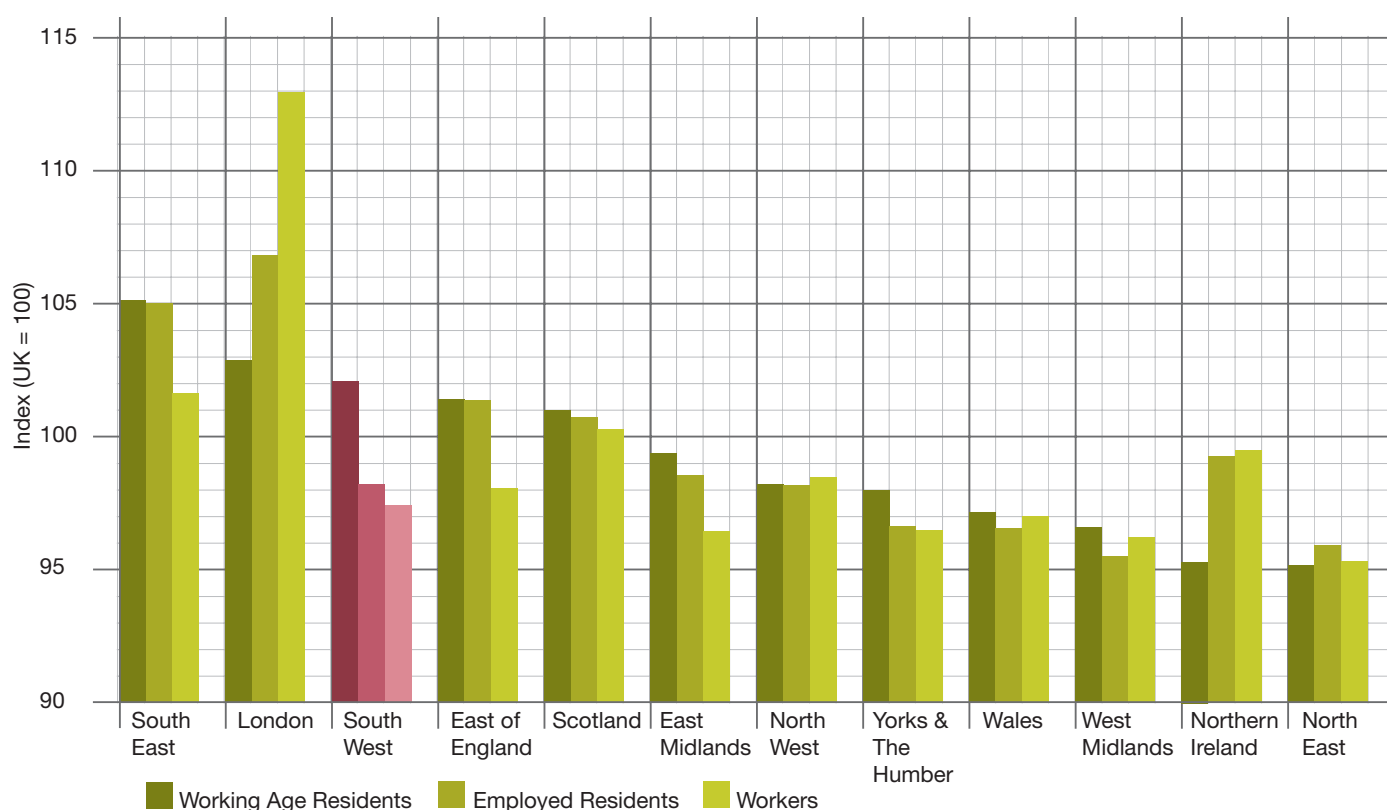


Fig. 14.1 Skills indices: 2003

Source: McVittie, E. (2003) Productivity in the South West of England, University of Plymouth.

Areas which are nearer to population centres tend to have more highly skilled workforces and to pay higher wages.



Geography and Productivity

An analysis for English sub-regions indicates that average skills levels tend to decline from North East to South West across the South West, and that under-employment of skilled workers tended to increase.

The pattern of skills and productivity observed within the South West – with both declining from north east to the south west – is mirrored in other parts of the UK. In general, productivity levels are higher in and around major cities and lower in more rural and peripheral areas.

Large cities are widely recognised as ‘engines of economic activity’. Productivity may be higher in cities due to savings in transport and communications costs for products, inputs and ideas. Concentrated markets for goods, services and workers reduce search costs, increase competition and improve the quality of matches between buyers and sellers, thus allowing more efficient utilization of available resources. These advantages are likely to be more significant for more specialized products and skills, thus ensuring a relatively high concentration of high value-added activities and high-skilled workers in the larger urban centres. The dominant performance of the London economy illustrates this most clearly, but other provincial cities reap similar advantages if on a much smaller scale.

Most parts of the South West are relatively distant from large cities, with the far south western counties being especially far removed. According to a ‘proximity index’ based on the size of population centres in each county and their distance from other population centres throughout England (in terms of either journey times or miles), the far south western counties are amongst the most peripheral in England. Cornwall is the most peripheral English county on the journey time measure (out of 46), with Devon 2nd most peripheral and Dorset 5th. Even the north western counties were around the middle of this ranking. Areas which are nearer to population centres tend to have more highly skilled workforces and to pay higher wages (suggesting higher productivity levels).

Another notable feature of the far south western counties is that they have very small local labour markets. Although Bristol is the 8th largest TTWA (Travel to Work Area) in the UK (after London, Manchester, Birmingham, Slough & Woking, Glasgow, Edinburgh and Tyneside), other local labour markets within the region are relatively small. The median size of British TTWAs is around 29,000 employee jobs (ONS Annual Business Inquiry), and around 96% of all jobs were in TTWAs of above median size.

By contrast, only 16 of the South West’s 51 TTWAs were above the median for the country as a whole, and these contained slightly less than three quarters of the region’s jobs. Indeed, the region has 21 of the 100 smallest TTWAs in Britain, with 16 of these in Devon and Cornwall. The size of local labour markets may be important for productivity in that larger labour markets permit higher quality matches between workers and jobs and may also generate training benefits. Certainly, there is evidence of positive relationships within the UK between size of TTWAs, skills and earnings.

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Small Business and Entrepreneurship

Closing the Regional Equity Gap?

**A Critique of the Department of Trade and Industry's
Regional Venture Capital Funds Initiative**

Colin M. Mason and Richard T. Harrison

Hunter Centre for Entrepreneurship, University of Strathclyde;
and Centre for Entrepreneurship Research, Edinburgh University
Management School

Differences Between Private Firms Owned by Novice, Serial and Portfolio Entrepreneurs: Implications for Policy Makers and Practitioners

Paul Westhead, Deniz Ucbasaran and Mike Wright

Institute for Enterprise and Innovation, Nottingham University
Business School

Closing the Regional Equity Gap? A Critique of the Department of Trade and Industry's Regional Venture Capital Funds Initiative

Colin M. Mason and Richard T. Harrison
Hunter Centre for Entrepreneurship,
University of Strathclyde; and Centre for
Entrepreneurship Research, Edinburgh
University Management School

Do new SMEs have difficulty obtaining finance to fund their expansion? This article argues that to the extent that they do, it is amongst those looking for between a quarter of a million and a million pounds. So-called 'business angels' offer a good supply of capital to new SMEs looking for under a quarter of a million pounds that isn't recognised in British Venture Capital Association statistics, as well as skills in assisting new ventures. Business angels, the article argues, often complain that rather than there being a problem with the *supply* of venture capital, there aren't *enough* attractive ventures to invest in.



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The government's intention is to create a minimum of nine regionally based funds in England (i.e. at least one in each RDA region). Scotland, Wales and Northern Ireland already have their own mechanisms for venture capital support (DTI, 1999b; see HOOD, 2000, for an account of the development of public sector support for

venture capital in Scotland). These funds will specialize in making investments in amounts of less than £500,000: they are permitted to invest up to £250,000 as an initial investment in a company and may subsequently invest up to an additional £250,000 in follow-on funding. They will also be required to observe certain conditions relating to the types and mix of investment instruments (primarily in the form of equity) and certain industry sectors are excluded (DTI, 1999b).

The rationale for this initiative is the belief that many SMEs are prevented from exploiting growth opportunities because appropriate funding is not available. Young, fast-growing SMEs typically have negative cash flows in their early years of trading as a result of the need to: invest in R&D, product development and testing; acquire facilities and key equipment; recruit staff; spend on raw materials, components, sales and marketing; and build up inventory. Indeed, the faster the company grows the greater the cash flow problems that it is likely to encounter (BINKS and ENNEW, 1996). Such businesses would find it difficult to service loan repayments. Accordingly, banks are reluctant to lend, particularly if there are no personal or business assets available to serve as collateral. In the event that a loan is made available, the need to service this debt imposes a burden on a company which may restrict its ability to grow. Adding to the existing cash outflows may also create a source of potential financial instability that could threaten the

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viability of the business in the event of any downturn in its trading position. By taking an equity position, venture capital is likely to be a much more appropriate form of financing for businesses where the degree of risk and the potential rewards are both high or where the available assets do not provide the desired security for providers of loan finance. However, it is widely believed that there is a lack of venture capital for SMEs at their start-up and early growth stages and evidence of unsatisfied demand for external equity amongst growth-oriented SMEs (BANK OF ENGLAND, 2001, p. 43). The Cruikshank Report on competition in the UK banking sector concluded that: 'there is clearly a mismatch between the needs of firms requesting small scale equity investments and the supply of these investments. Venture capital deals tend to be too large and business angel finance is underdeveloped. This gives rise to the long recognized market failure known as the "equity gap" ' (CRUIKSHANK, 2000, chapter 6).

On this evidence the case for supporting the establishment of regional venture capital funds may seem to be compelling. However, we remain to be convinced.

Are there sufficient 'classic' venture capital skills?

The Consultative Document emphasizes that it will only support funds that are managed by 'fund managers with experience of successful investment in the equity gap'. This is because it is 'only by utilizing proven experience will funds stand a strong chance of attracting private investment and succeeding in making positive returns for those investors' (DTI, 1999b, para. 2.1). Evidence from other contexts suggests that relevant fund management expertise is crucial.

Providing finance to new and young entrepreneurial companies is just one part of what classic venture capitalists do. Their effectiveness is ultimately contingent upon the value-added inputs and support services that venture capitalists can provide either directly or through their networks (FLORIDA and KENNEY, 1988). One early stage venture capitalist interviewed by HARRIS and BOVAIRD, 1996, p. 192, commented that whereas later stage

investors 'usually succeed through good deal selection – [only] thirty per cent of our success comes from this, the other seventy per cent comes from managing the deal afterwards'. (...) Specifically, classic venture capitalists bring a wide range of business skills and resources, both directly and indirectly via their networks, to their investee companies, and have a significantly closer involvement than venture capitalists who specialize in later stage investments. Moreover, companies seeking early stage venture capital typically want 'smart money' (CRESSY and OLOFSSON, 1997; LINDSTROM and OLOFSSON, 2001) from investors who can contribute value-added skills that will help the business to grow.

However, such competence is based on experience; classic venture capitalists cannot be hired straight out of MBA courses or consulting firms, so there is limited scope for quickly increasing the supply of classic venture capital skills. Moreover, experienced venture capitalists with classic investing skills are unlikely to be attracted to the Regional Enterprise Funds because of this unattractive level of remuneration. In these circumstances, and given that there is a considerable degree of political capital invested in this initiative, there is a risk that fund managers will be appointed whose competence is predominantly in financial engineering and who have little ability to provide these value-added skills to support young growing firms, or even to identify promising new and early stage ventures. Two possible outcomes are likely to follow. The first is a poor investment performance. HARRIS and BOVAIRD's, 1996, detailed study of early stage venture capital firms concludes that attempts to provide finance without support to investee businesses is likely to result in failure. The second – which may follow from the first – is a concentration on investments where such investors have a greater 'comfort'. The experience of other funds that have been established with similar remits to close regional equity gaps (e.g. Midland/HSBC Enterprise Funds, Hambros Northern Ireland Fund) reinforces this pessimism, in that they have been subject to significant degrees of 'investment drift', making progressively larger investments and seeking out businesses with an established track-record. Indeed, in the context of the Regional Venture Capital Funds initiative, there is some concern that

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one consequence of the investment of public monies in the funds, and the consequent need for fund managers to be accountable for the use to which it is put, will be to encourage even more risk averse behaviour, with the result that there will be much less likelihood of investment at seed stage (ALLEN, 2001, p. 86).

The greatest repository of classic venture capital skills in the UK is found in the business angel community. Their aggregate investment performance is at least as good as that of early stage venture capital funds (MASON and HARRISON, 2002b). Accordingly, a more appropriate approach would have been to invite business angel syndicates that have a degree of formal organization and can meet the requirements of financial probity to tender for the management of these funds.

Can regional enterprise funds achieve financial viability?

The government's intention is that ultimately the public sector will be able to withdraw its support from the funds having demonstrated the viability of early stage venture capital investing, leaving the private sector to invest in such funds without further support. In other words, regional enterprise funds are expected to achieve financial viability in due course. MURRAY, 1999, argues that the critical factor in achieving financial viability is fund size. The funds will vary in size, ranging from £15 million in the North East to £50

million in London (*Financial Times*, 2001). The funds in the North West and South East are each of £30 million (EDGE, 2001).

MURRAY, 1999, estimates that the minimum viable size for a specialist technology-focused early stage venture capital fund is approximately £20 million. Conversely, a fund with less than £15 million under management will encounter significant difficulties in generating commercial returns, even with a 2:1 government leverage. The small size of early stage funds creates a number of sources of vulnerability (*ibid.*):

- Their small size means that they can only make a limited number of investments. The narrow spread of investments increases risk because of limited diversification.
- The fund may be unable to provide follow-on finance to those firms in their portfolios that require a second (and subsequent) round of investment (probably successful and consequently cash consuming investee companies), either because they have run out of money or because of constraints on the proportion of the fund that is invested in one company. In such circumstances the fund will need to invite a larger fund as co-investor. However, the fund will be in a weak bargaining position and may have to accept a low equity revaluation and consequent dilution of its original investment (MURRAY, 1994a).
- There is a strong probability that the funds will run out of money before they can 'harvest' their existing investment portfolio, but without an investment track-record are unlikely to be able to raise additional finance from private investors.

The management costs involved in running a venture capital fund creates a further difficulty for small funds to achieve financial viability. These costs are paid out of the capital that the fund has raised from its investors: because many of the costs are fixed, this means that the smaller the fund the greater the proportion of the capital raised that is accounted for by these costs.

Aiming at the wrong target

The creation of Regional Venture Capital Funds is based on the government's view that there is 'a market failure in the provision of finance in amounts below £500,000 for SMEs with growth aspirations' (DTI, 1999b, para. 1.11). However, this view is based on the assumption that the statistics on investment activity published by the BVCA provide a comprehensive coverage of venture capital activity in the UK. In fact, the supply of 'classic' venture capital is much greater than reflected by the BVCA's statistics.

First, by only reporting the investments of fund managers who are full members of the BVCA and who respond to the request for investment statistics, it excludes a significant amount of small-scale investment activity which typically goes unreported.

Second, BVCA statistics also under-report corporate venture capital investments. Although investments made by companies in venture capital funds are included, minority investments by large companies directly in small businesses are not counted.

Third, the BVCA does not monitor investments made by business angels. However, this is an extremely significant source of funding for businesses seeking small amounts of finance. It is impossible to accurately assess the scale of business angel investing because of the invisible nature of most of their investment activity. MASON and HARRISON, 2000, have estimated that there are between 20,000 and 40,000 business angels in the UK who invest £0.5 billion and £1.0 billion annually in 3,000–6,000 companies. Moreover, there is considerable potential to expand the level of investment activity amongst active business angels, as most say that they cannot find enough investment opportunities (MASON and HARRISON, 1999; 2001), and to increase the population of business angels (MASON and HARRISON, 1993).

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The Regional Enterprise Funds are aiming at the wrong target. The real need is for an expansion of suppliers providing amounts in the £250,000 to £1 million range.

The DTI's proposal to establish regional venture capital funds is therefore based on an inaccurate view of the market for early stage venture capital. The availability of small amounts of early stage venture capital is much greater than indicated by BVCA statistics. Although it is impossible to accurately assess the true size of this market, the evidence from Scotland suggests that the scale of early stage venture capital investment activity may be four times that reported in BVCA statistics, with business angels, on account of their low, and limited sensitivity to, transaction costs, supplying much of this finance. However, below £250,000 the supply of venture capital is unorganized and uncoordinated and so this market suffers from high information asymmetries. Amounts in excess of £1 million are also well-served by venture capital funds because of the potential for attractive commercial returns (HARDING, 1999). Thus, the real equity gap is for amounts in the £250,000 to £1 million range rather than for amounts of under £250,000 which are effectively met by business angels and small venture capital funds. Moreover, the existence of this gap is threatening the viability of the sub-£250,000 investors. For example, the Chief Executive of one of the University Challenge Funds has noted a substantial problem in trying to secure follow-on funding from the investment community for its portfolio of companies (CONNECT, 2002).

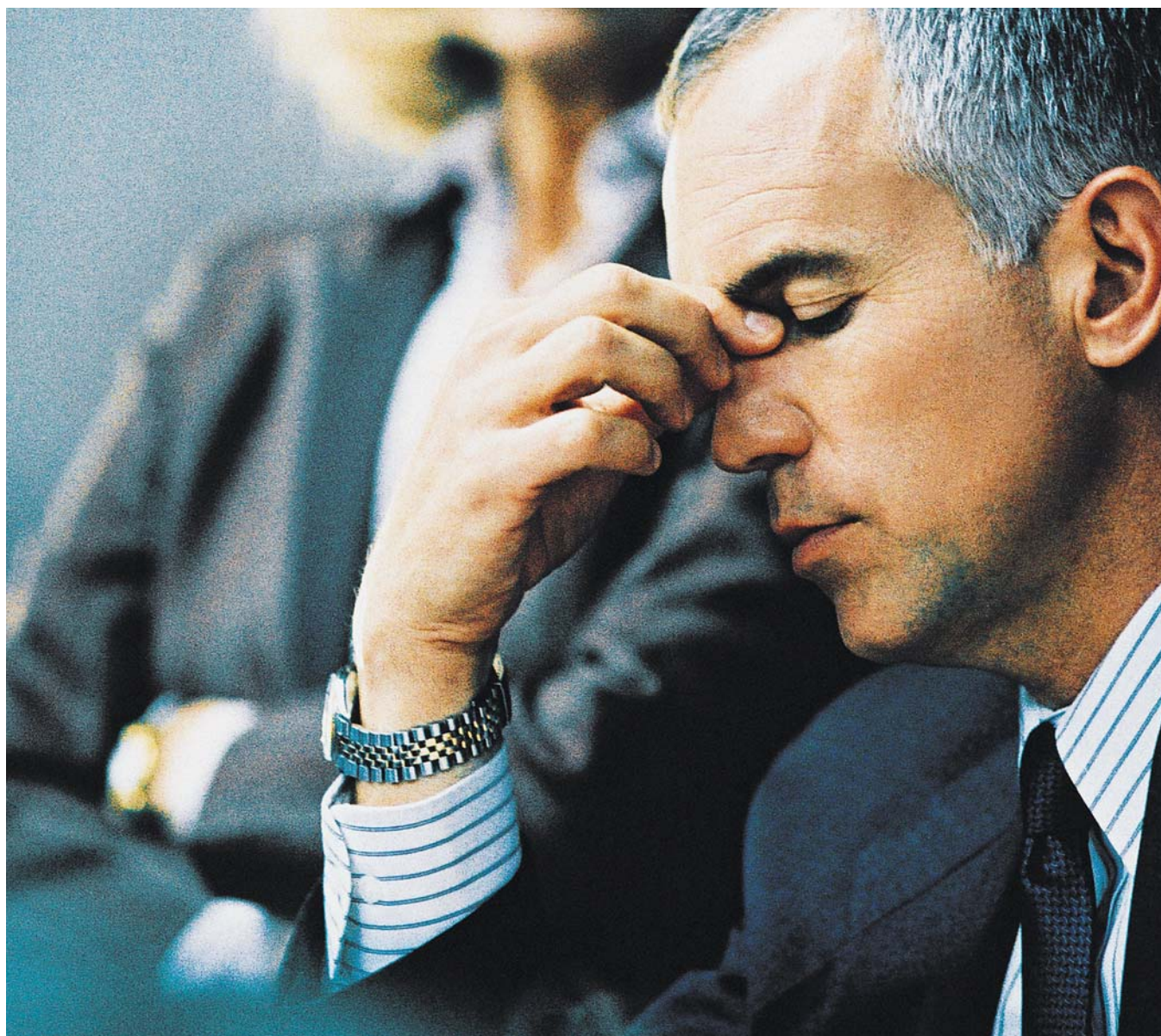
The implication is that the Regional Enterprise Funds are aiming at the wrong target. The real need is for an expansion of suppliers providing amounts in the £250,000 to £1 million range rather than providing smaller amounts which are effectively met by business angels and small venture capital funds. Furthermore, although the initiative is designed to operate with the same conditions, in terms of investment ceilings, in all regions, there is evidence (HARDING, 1999; ALLEN, 2001) that the 'equity gap' may vary regionally (with a figure of £1 million plus in Greater London and £2 million plus in the South East being quoted). If so, the impact of the initiative on closing the perceived equity gap will vary regionally: a regionally-differentiated problem calls for a regionally-differentiated solution.

UK business angels consistently report that they are unable to find sufficient investment opportunities.

Failure to address demand side constraints

The proposal to establish regional enterprise funds is based on the assumption that the equity gap reflects supply side problems. The DTI's Consultative Document cites evidence on unsatisfied demand for external equity-based investment which is attributed to supply side constraints (DTI, 1999b, para. 1.7). The possibility that the equity gap reflects demand-side deficiencies is never considered. However, studies of UK business angels consistently report that they are unable to find sufficient investment opportunities (COVENEY and MOORE, 1998; MASON and HARRISON, 1999, 2001, 2002c). In other words, early stage investors are opportunity constrained. Some existing early stage funds also report an over-supply of finance (HARDING, 1999). For example, East of Scotland Investments (ESI), a £7 million venture capital fund set up to address Scotland's low business birth rate, has returned £1.5 million to its investors because it has been unable to find sufficient investment ready companies which justify investment (*The Scotsman*, 26 September 2001). This suggests that simply increasing the supply of finance may have little or no effect on reducing the equity gap.

There are three aspects to demand side constraints. First, the population of businesses capable of generating the returns that are sought by venture capital investors is relatively small in the UK. The 37 country Global Enterprise Monitor (GEM) report for 2002 indicates that entrepreneurial activity in the UK is about two-thirds of that achieved by the most entrepreneurial OECD nations (HARDING, 2002) and is manifest in a lower business start-up rate and a smaller proportion of rapidly growing businesses. Moreover, regional variations in business start-up and growth (KEEBLE and WALKER, 1994) mean that in some regions the demand for venture capital will be particularly low. Second, although harder to quantify, there is a high level of equity aversion amongst SMEs (HOWORTH, 2001). This means that entrepreneurs either forgo significant growth in order to retain 100% ownership of their business or else they seek to grow on the basis of either insufficient finance or inappropriate forms of finance, often

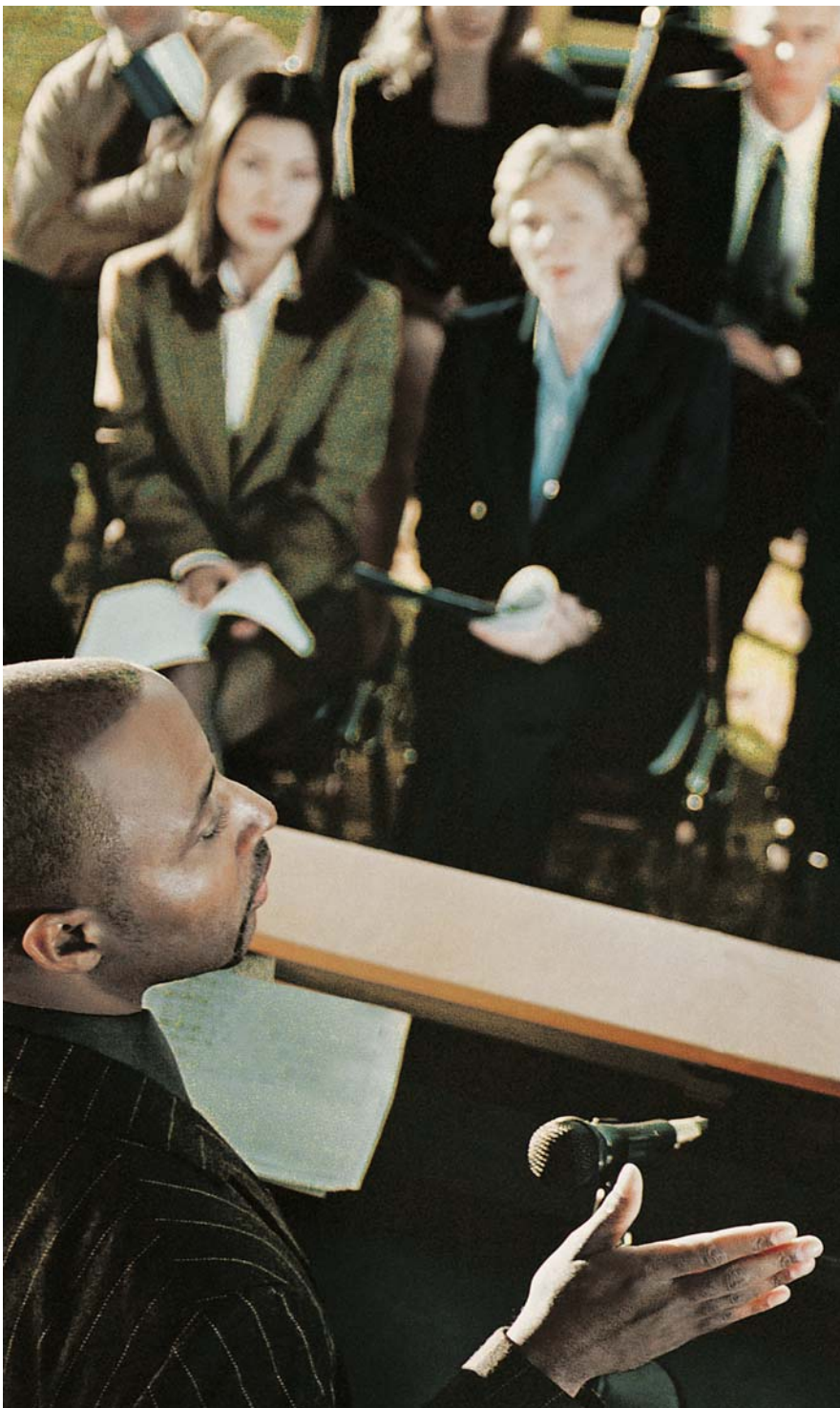


with disastrous consequences. Third, a significant proportion of the SMEs which put themselves forward as candidates for equity capital are unsuccessful in raising venture capital because they are not *investment ready* (MASON and HARRISON, 2001; DOUGLAS and SHEPHERD, 2002). This describes projects which may intuitively have merit but which are either not sufficiently developed or are inappropriately structured to be taken forward by investors.

The clear implication is that simply creating pools of venture capital will not, of itself, lead to an increase in the amount of early stage venture capital that is invested. Indeed, the likely effect of creating an additional supply of early stage venture capital, operating on a less than fully commercial basis as a result of government financial support, in a situation in which there is a restricted supply of viable, high potential businesses, will be to create distortions in the market which over the longer term could drive out existing private sector venture investors.

A supply side approach is therefore insufficient to solve the equity gap. The proposal to support regional venture capital funds requires to be complemented by initiatives that address these demand-

side constraints. In addition to the range of initiatives that were flagged up in the Competitiveness White Paper to promote entrepreneurship (DTI, 1998) there is a specific need for expertise on how to become 'investment ready' to be made available to SMEs. This need has been belatedly recognized by government (HM TREASURY/ SMALL BUSINESS SERVICE, 2001). In 2002 the Small Business Service funded six investment ready demonstration projects. In due course these will be evaluated in order to inform and shape the design of any future national rollout of an investment ready programme (SMALL BUSINESS SERVICE, 2001a). However, there are serious concerns that the scope of investment readiness, and the form that intervention should take, are not fully understood (MASON and HARRISON, 2001).



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Differences Between Private Firms Owned by Novice, Serial and Portfolio Entrepreneurs: Implications for Policy Makers and Practitioners

Paul Westhead, Deniz Ucbasaran and Mike Wright
Institute for Enterprise and Innovation, Nottingham
University Business School

How best to increase the number of successful businesses in UK society? The answer might not, this article argues, come from trying to persuade more people to start businesses. Successful entrepreneurs are often those who have owned more than one business at a time, and these might be the best focus of policy. Experienced entrepreneurs looking to start a third or fourth business are more likely to be successful than those considering starting a first business. Those who have already started their first businesses should be helped by business survival policies, and encouraged to bring more experienced entrepreneurs on-board as equity partners.

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The entrepreneurial process involving all the functions, activities and actions associated with the perception of opportunities (BYGRAVE and HOFER, 1991), and the ownership of organisations to pursue them, has generated considerable interest from academics as well as policy makers and practitioners (GAVRON *et al.*, 1998). It is widely believed that the entrepreneurial function is a vital component in the process of economic growth (BAUMOL, 1968; CASSON, 1982; REYNOLDS *et al.*, 1994). This viewpoint is supported by the Organization for Economic Cooperation and Development (OECD). In 1998, the OECD published a document entitled *Fostering Entrepreneurship* which stated that:

Entrepreneurship is central to the functioning of market economies. Entrepreneurs are agents of change and growth in a market economy and they can act to accelerate the generation, dissemination and application of innovative ideas. In doing so, they not only ensure that

efficient use is made of resources, but also expand the boundaries of economic activity. (p. 12)

The promotion of entrepreneurship is also seen as a means of combating unemployment and poverty (STOREY, 1982, 1994).

Policy makers and practitioners seeking to raise the total stock of businesses (SCOTTISH ENTERPRISE, 1993, 1994) are increasingly recognizing that habitual entrepreneurs (i.e. entrepreneurs with prior business ownership experience) own a sizeable proportion of new business start-ups. Studies conducted in the UK have highlighted that the proportion of habitual entrepreneurs reported ranged from 12% to 36%, with the proportion in Scotland being at the lower end of this range (i.e. 12% and 15% reported by CROSS, 1981, and TUROK and RICHARDSON, 1989). SCOTT and ROSA, 1996, have asserted that habitual entrepreneurs need to be considered as an important sub-group of entrepreneurs who make a fundamental contribution to the process of wealth creation in society. Resources may be more effectively utilized if they were targeted towards this group of entrepreneurs, rather than in the form of additional initiatives to increase the pool of pure nascent entrepreneurs (i.e. individuals considering business ownership for the first time) and novice entrepreneurs (i.e. with no prior business ownership experience).

Habitual entrepreneurs need to be considered as an important sub-group of entrepreneurs who make a fundamental contribution to the process of wealth creation in society.

Policy makers and practitioners need to be aware that relatively few entrepreneurs have the inclination, or the ability, to be significant wealth creators.

Policy makers and practitioners have assisted the supply of entrepreneurs and the development of firms through the provision of two broad inputs to businesses – ‘hard’ (i.e. financial) and ‘soft’ (i.e. technical support to enhance the skills or capabilities of entrepreneurs) assistance to firms (BRIDGE *et al.*, 1998). Habitual and novice entrepreneurs may differ with respect to both their initial access to finance and their capabilities to exploit their business opportunity. From the outset, it needs to be recognized that habitual entrepreneurs are not a homogeneous group. Some habitual entrepreneurs may own multiple businesses simultaneously (i.e. portfolio entrepreneurs) which may provide access to wider sources of finance and involve differing kinds of skills. Other habitual entrepreneurs may own multiple businesses sequentially (i.e. serial entrepreneurs), and may have been successful or have failed in their previous business (WRIGHT *et al.*, 1998). To inform the development of policy towards different types of entrepreneur, systematic information is required surrounding their differential access to initial financial resources and their different capabilities. Policy makers and practitioners also require information on output measures relating to the size and performance of firms owned by the three types of entrepreneurs. Individuals contemplating differential support for different types of entrepreneur require information relating to the similarities and differences among novice, serial and portfolio entrepreneurs.

Policy makers and practitioners need to more fully appreciate the resources, behaviour and needs of various types of entrepreneurs, when they are formulating policies to encourage new firm formation and business development (WESTHEAD and WRIGHT, 1999). This study has detected that portfolio entrepreneurs have more diverse experience and more resources than either serial or novice entrepreneurs. (...) On average, portfolio entrepreneurs may offer more attractive growth prospects than other entrepreneurs. Financiers may seek to target ‘hard’ financial support to independent businesses with regard to the prior business ownership experience of the owner(s). Presented evidence suggests that they need to consider the provision of ‘soft’ assistance because of concerns about the ability

of some experienced entrepreneurs (i.e. serial entrepreneurs) to identify a potentially successful investment the second time around.

Portfolio entrepreneurs were more likely to exhibit several competencies that provide greater understanding surrounding why and how they own several businesses at the same time. The fact that portfolio entrepreneurs own more than one business may explain their greater focus on managerial competence and human capital resources than serial or novice entrepreneurs. At the start of the surveyed business, they had significantly more equity partners than novice or serial entrepreneurs. Portfolio entrepreneurs also gave greater importance than novice or serial entrepreneurs to the following organizational capabilities: innovation; cost reduction; product/service differentiation; and business growth. They emphasized the importance of investing heavily in R&D; increasing employee and operations productivity and efficiency; strict quality control; using novel marketing techniques; and growth through acquisitions. Moreover, portfolio entrepreneurs may develop synergistic relationships between the ventures they own to gain competitive advantages for individual ventures (ROSA, 1998). Portfolio entrepreneurs can utilize this distinct advantage to ensure the survival and development of ventures they own.

Portfolio entrepreneurs reported higher percentage growth of sales as well as full-time and absolute employment growth than novice and serial entrepreneurs. A skewed pattern of absolute employment growth was particularly prevalent in businesses owned by portfolio entrepreneurs. This evidence suggests policy makers and practitioners need to be aware that relatively few entrepreneurs have the inclination, or the ability, to be significant wealth creators.

Presented evidence suggests that there is a case to target policy assistance towards portfolio entrepreneurs, if the objective of policy is to maximize returns on investments. These individuals are relatively easy to identify. Policy makers and practitioners may divert scarce resources away from inexperienced entrepreneurs, who own under-performing businesses,

towards portfolio entrepreneurs with potential to generate jobs. Evidence suggests that there is a need to encourage inexperienced novice entrepreneurs to take-up and exhibit the methods of best business practice displayed by experienced habitual entrepreneurs, particularly portfolio entrepreneurs. Rather than 'blanket support' available to all entrepreneurs, irrespective of their need or ability, there is a case to target entrepreneurs with potential who face barriers to business development that can be addressed by appropriate and sensitive 'soft' professional external support.

Support targeted towards serial entrepreneurs who have held equity stakes in businesses that have closed, but have surmounted their personal difficulties to subsequently own a successful venture, may encourage other serial entrepreneurs to have another (more successful) foray as an equity stakeholder in a venture. There is some evidence that suggests that individuals may learn more from 'failure' than 'success' (SITKIN, 1992). A further policy initiative would be to provide both serial and portfolio entrepreneurs with 'hard' financial incentives through changes in the tax regime. These changes would seek to encourage the investment of profits, or funds realized from the sale of a business, into subsequent ventures with growth potential.

Policy makers and practitioners seeking to encourage wealth creation, as well as addressing social and regional inequality, may seek to target serial entrepreneurs who require external support to address the liabilities associated with owning a previously unsuccessful venture, and who can learn from their prior business ownership failure. Serial entrepreneurs generally own younger firms than other entrepreneurs, and these organizations may be associated with the 'liabilities of newness'. Initiatives should be designed to ameliorate the problems faced by owners of newer organizations. Policy makers should consider why serial entrepreneurs repeatedly exit from their businesses. Repeated exit may be a signal of an entrepreneur's willingness to establish new ventures (STOKES and BLACKBURN, 2002). It may also signal that this entrepreneur has insufficient managerial



skills and resources to grow a business. By communicating with serial entrepreneurs who are seeking sales and employment growth from their ventures, policy makers and practitioners can consider providing targeted support to address their specific needs.

To increase the stock of businesses in a local community, policy makers and practitioners can introduce measures that encourage the survival and development of existing businesses owned by novice and habitual entrepreneurs, rather than trying to identify (and support) nascent entrepreneurs who are likely to have a high probability of owning businesses that close within three years of operation. If a business survival policy is pursued, it is critical that resources are targeted to entrepreneurs (and businesses) with significant growth potential, rather than ensuring the survival of a large number of uncompetitive businesses which will close after the period of subsidy, because a market cannot be found for their goods or services.

Policy makers and practitioners may divert scarce resources away from inexperienced entrepreneurs, who own under-performing businesses, towards portfolio entrepreneurs with potential to generate jobs.

Novice entrepreneurs should seek to identify additional equity partners who can provide resources as well as entrepreneurial and managerial capabilities.

Policy makers and practitioners need to appreciate that some entrepreneurs go into business with only one business idea. Unlike habitual entrepreneurs, novice entrepreneurs cannot draw upon their prior business ownership experience. Policy makers and practitioners should consider introducing schemes that address the following obstacles to business development highlighted by inexperienced novice entrepreneurs.

First, since there is evidence from elsewhere that businesses associated with higher levels of initial capitalization have a higher probability of business survival (BRÜDERL *et al.*, 1992), and from our survey that novice entrepreneurs invest significantly less initial capital, some 'hard' financial initiatives may be appropriate for novice as opposed to portfolio entrepreneurs.

Second, inexperienced novice entrepreneurs seeking to address hurdles to business formation and development need to consider the team aspect of business ownership. With reference to total amounts of initial finance invested, novice entrepreneurs, on average, invested more external rather than internal finance. It can be reasonably inferred that firms owned by inexperienced novice entrepreneurs were initially more highly geared. If owners of highly geared firms are unable to keep up with the interest repayments, their firms may be associated with markedly higher closure rates than firms that have utilized more internal finance. To address this issue, novice entrepreneurs should seek to identify additional equity partners who can provide resources as well as entrepreneurial and managerial capabilities. A number of inexperienced novice entrepreneurs should consider 'selling' some of their good ideas to experienced habitual entrepreneurs, to ensure that they are converted in businesses that generate real wealth for the 'teams' of owners.

Third, there is a need to encourage novice entrepreneurs to focus upon the following organizational capabilities highlighted by habitual entrepreneurs: the need to grow the business using internal profits, to focus upon new product/service development and lower production costs via process innovation.

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Labour Market and Skills

Hidden Unemployment in the East Midlands

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The Real North-South Divide?

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Regional observatories often act as an interface between the policy and academic communities. This report was commissioned from the Centre for Regional Economic & Social Research to fill a gap in understanding of hidden unemployment in the East Midlands. Using a scenario-based approach, the extract from the report reproduced here looks at the possible trajectories for employment and hidden unemployment in the East Midlands in the next decade.



Reproduced with permission from *Hidden Unemployment in the East Midlands*, a report for the East Midlands Observatory.

A simple and widely accepted way of portraying the intra-regional variation [in employment] in the East Midlands is as a 'North/South divide':

- The *North* is mainly characterised by higher than average levels of claimant unemployment and labour market detachment, lower wages and incomes, older housing, slower jobs growth in buoyant sectors, concentrations of deprivation, and overall a relatively high degree of labour market slack.
 - The *South* features higher than average employment rates, faster jobs growth (especially in services), an occupational structure more biased towards higher level non-manual occupations, more complex commuting patterns, greater prosperity, more expensive better quality housing, some planning restrictions which may thwart the nature and location of further development, and a tight labour market.
- The grouping of districts (...) provides a fuller picture of intra-regional variation:
- *Cities* - the three main cities (Nottingham, Leicester, Derby) may have seen recent employment growth but this has occurred alongside continuing unemployment and deprivation. New jobs have often drawn in people with the requisite skills and attributes from a wider catchment area rather than from the local resident labour force.
 - *Suburban* – this group encompasses the main areas of private housing on the fringes of the three main cities. The residents of these areas tend to be more prosperous than average and more mobile in their search for work. While the local economic base of these areas may be fairly weak, the suburbs provide good access to opportunities in the cities and other neighbouring areas.
 - *Former Coalfields* – key features here are high levels of claimant unemployment and labour market detachment, lower skills and incomes and higher levels of deprivation. There is some employment growth but the new jobs are often in a restricted range of sectors and occupations, and often part-time, precarious and low wage. Some former coalfield areas (for example North West Leicestershire) appear to be adjusting better or more quickly than others and some of the more attractive parts of coalfield districts have seen in-movement of workers who commute elsewhere.
 - *Industrial Towns* - these cover a range of circumstances, with some towns (such as Northampton, Kettering and Wellingborough) faring well and overcoming the loss of traditional industries by the attraction of new services. Others (for example Corby and Lincoln) are tending to lag behind. The scale of new investment and development is smaller, and location away from the main growth corridors does not help.

- *Mainly rural* – some of these districts feature tight labour markets with virtually full employment. However, the nature of labour demand across rural areas in the East Midlands varies. In parts of Lincolnshire there is evidence of continuing joblessness with the agricultural sector for example characterised by seasonal fluctuations in demand for labour and low wages. In the south of the region there are often labour shortages, attributable in part to the housing market and planning constraints.

Future scenarios

The recent experience of the East Midlands economy is one of relative success. Regional employment has been growing more quickly than the UK average for the last twenty years, with only the South East, the Eastern region and the South West enjoying faster growth. The employment rate for persons of working age is slightly higher than the UK average, although its rate of increase was below the UK average over the period from 1997 to the end of 2001. On both the claimant and ILO unemployment measures the regional unemployment rate has been, and remains, lower than the UK average. Adding in hidden unemployment does not change the region's ranking... The position on some other economic indicators gives cause for concern. GDP per capita remains lower than the UK average. Levels of educational attainment and workforce skills are lower than the UK average. Average wages are relatively low. Indeed, as highlighted by the *State of the Region's Economy* report, there is evidence of a 'low pay, low skill equilibrium', and the sustainability of this equilibrium is questionable.

Projections for the East Midlands suggest a continuing shift in employment away from manufacturing and traditional primary industries in favour of services. The dominant feature is the projected loss of 75,000 jobs in manufacturing over the period from 1999 to 2010. In relative terms, this represents a slightly greater loss than for the UK as a whole. Nevertheless, the East Midlands is projected to retain a greater share of employment in manufacturing than the UK average. Textiles, footwear & clothing



account for the largest projected job losses in manufacturing over the period to 2010, although substantial job losses are also expected in engineering. Manufacturing job losses contrast with projected gains over the same period of around 125,000 jobs in business and miscellaneous services. Smaller, but substantial increases are projected in public services such as health and education, and in distribution, transport and communications.

Projected job losses are expected to fall disproportionately on male full-time employees. Between 1999 and 2010 a loss of 55,000 male full-time jobs in the East Midlands is projected, contrasting with an expected increase in female full-time employees of nearly 50,000. For both males and females increases of about 50,000 part-time employees are projected.

Industrial change influences occupational change. Over the medium-term, the single largest projected increase in employment in the East Midlands is for personal service occupations. Women are expected to account for the majority of this net increase, with many of the employment opportunities being for part-time employees. The next largest projected increases are in professional, managerial and other white-collar jobs. Projected job losses are concentrated in skilled and trade occupations with an expected decline in employment of 35,000. These job losses are expected to fall almost entirely on males. Further losses of over 10,000 jobs are expected for process, plant and machine operatives. Here women are expected to bear the brunt of the projected job losses. So while on the basis of employment projections men in manual jobs may be expected to be most vulnerable to job loss, some groups of women may also find their jobs disappearing. Overall, the projected shifts in the industrial and occupational structure of employment suggest increasingly difficult circumstances for those with poor skills.

Projections for the East Midlands suggest a continuing shift in employment away from manufacturing and traditional primary industries in favour of services.

In some scenarios, and in current labour market projections for the East Midlands, there is potential for growing disparities at several levels.

A 'scenario building' approach provides alternative views of the future, as illustrated by the four scenarios summarised below:

- *Free Market Future* – In this scenario employment in low value-added industries and services declines as the East Midlands fails to compete with low-cost locations elsewhere in the world. There is an increasing share of employment in high value-added products and services, and a premium on highly skilled workers. Workers in the low value-added industries, and particularly those with few transferable skills, would be most vulnerable to joblessness. In those local areas where there is a high reliance on such industries, the highest levels of job loss might also be expected.
- *Social Interventionist Future* – A relatively high degree of labour market regulation is central to this scenario as part of a policy framework to offset the polarising effect of unregulated economic growth. This might include positive discrimination in favour of disadvantaged groups coupled with strong local economic development and regeneration policies to narrow the gap between less favoured areas and the rest of the region.
- *Successful Future* – In this scenario the East Midlands might be characterised by high levels of economic activity, high levels of educational attainment and a skilled and adaptable workforce. Nevertheless, labour market opportunities for those with poor skills might be expected to continue to diminish, especially as they have difficulty in gaining a foothold in the knowledge economy.
- *Failing Future* – There is minimal if any job growth as companies in the region fail to keep pace with the changing demands of the global economy. Mobile investment seeks alternative destinations. The region haemorrhages more highly skilled people with ambition who move away to pursue careers elsewhere. Spatial and social divides are exacerbated.

It is clear that although these four scenarios display some distinctive features, they also share aspects in common. The first concerns the role of knowledge and technological change. Competitive companies recognise, and act upon, the

need to invest in expanding their knowledge base and reap the benefits of technological change. Technological change offers potential for job losses as well as gains – with the losses concentrated amongst the less skilled, particularly in manufacturing. The second message concerns polarisation. In some scenarios, and in current labour market projections for the East Midlands, there is potential for growing disparities at several levels.

So what implications can be drawn for the future of unemployment – particularly hidden unemployment – in the East Midlands? Four strategic observations can perhaps be made.

The first is that the *trajectory* of future unemployment is likely to be sensitive to the emerging scenario for the region and indeed for the UK economy as a whole. The 'free market future' and the 'failing future', in particular, imply substantial economic dislocation in which only some of the men and women made redundant by declining sectors are absorbed by growth in the rest of the region's economy.

The second point concerns the *balance* between claimant and hidden unemployment. The employment projections for the region point strongly to declining job opportunities for men, compared to women. Men's unemployment is more likely to be 'visible' in the claimant count, but the specific groups of men who are likely to find themselves in the weakest labour market position – the older, less skilled and less healthy – are prone to dropping out of claimant unemployment into various forms of hidden unemployment, particularly as sickness claimants and to a lesser extent as early retirees. The continuing growth of job opportunities for women, on the other hand, would suggest falling hidden unemployment among this group, especially as claimant unemployment among women in almost all of the region is already low. In particular, many of the 'extra ILO unemployed' – women who are looking for work but not included in the claimant count – may be among the first to be drawn into employment. If women's labour market participation continues to increase, however, the impact of additional employment on real levels of unemployment among women may be much more muted, as seems to have been the case in the East Midlands between 1997 and 2002.

Where the demand for labour is strong enough, as in the south of the region, both claimant and hidden unemployment can be reduced to low levels.

The third point concerns the *geography* of unemployment. Aspects of the 'free market future' and 'failing future' scenarios especially point to pressures for greater polarisation within the East Midlands. The 'free market future', in particular, suggests that the already tight labour market in southern parts of the region may grow still tighter, as there is presently little unemployment (claimant or hidden) in most of these areas. Rising demand for labour in this part of the region could probably be met only by significant in-migration, with all the attendant consequences for housing demand and land use. If serious in-roads are to be made into the large stock of hidden unemployment in some northern parts of the region, and indeed into the present stock of claimant unemployment in some districts, a 'social interventionist future' seems the best hope.

Finally, the *scale* of current unemployment should not be ignored. According to the estimates... five years of sustained national economic growth between 1997 and 2002 reduced the real level of unemployment in the East Midlands by 37,000, or about one-in-six. That still leaves an enormous problem – an estimated 187,000 claimant or hidden unemployed, concentrated in particular in a dozen or so districts in the northern part of the region. While claimant unemployment might continue to fall if strong economic growth is maintained, on the basis of trends over the last five years the problem of hidden unemployment looks much more intractable. To bring genuine full employment to the whole of the East Midlands might require as much as a generation of further economic growth.

However, the scale of hidden unemployment suggests that current policies, by themselves, are not enough. There are two key problems. First, although the 'economically inactive' are for the first time beginning to be included in New Deal programmes, the majority of labour market interventions are still targeted mainly at the claimant unemployed. Indeed, it is apparent that some players in the region still see 'unemployment' and the 'claimant unemployed' as more or less synonymous, and they are not geared-up in either their thinking or actions to address the other groups without work. As a result, the hidden unemployed continue to be largely

overlooked despite the evidence that they now outnumber those on JSA. The hidden unemployed are usually further from employment and active job seeking, and they are therefore not an easy group from which to obtain successful 'outcomes'. But the hidden unemployed – especially the very large numbers on Incapacity Benefit – also often require the most intensive support to re-engage them with employment. At present they are mostly not receiving this help.



The second problem concerns the neglect of demand-side factors. The evidence indicates that where the demand for labour is strong enough, as in the south of the region, both claimant and hidden unemployment can be reduced to low levels. However, the scale of real unemployment in other parts of the region, such as the former coalfield districts in the north, indicates that unemployment is unlikely to be eliminated without boosting the supply of jobs. Indeed, in the absence of substantial additional employment in these areas, greater efforts to place people in jobs will simply shuffle those who are in work and those who are unemployed, with little or no net impact on the overall level of joblessness. What continues to be needed in these places are policies that will deliver the new infrastructure, new investment and the new jobs that are still so badly needed.

The Real North-South Divide? Regional Gradients in UK Male Non-employment

Michael Anyadike-Danes

Northern Ireland Economic Research Centre

Most regions use the International Labour Organisation definition of unemployment in measuring regional progress. Yet, as this article argues, there is a correlation between the number of working age people who are not working, and the proportion of these people who are classified as sick or disabled. The question this article raises then is whether a shortage of jobs in some regions gives rise to a large number of people being classified as non-employed and unable to work, rather than unemployed.

This extract was taken from an article originally published in *Regional Studies* (38.1 85-95), Journal of the Regional Studies Association and is reproduced here with the permission of the Publisher, Taylor & Francis Ltd.

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The performance of the UK labour market in the second half of the 1990s seems to have attracted quite favourable notice, especially in comparisons with the situation elsewhere in Western Europe. But probe a little deeper and it becomes apparent that assessments of regional labour market conditions in the UK have in fact become quite strongly polarized. There are two intertwined strands of argument which form the background to this deep difference of opinion. They are a matter of principle – the choice of a statistical measure to summarize the state of the labour market (e.g. unemployment vs. non-employment) – and a matter of practice – what the measure shows about regional disparities in labour market conditions (the relative performance of ‘north’ and ‘south’).

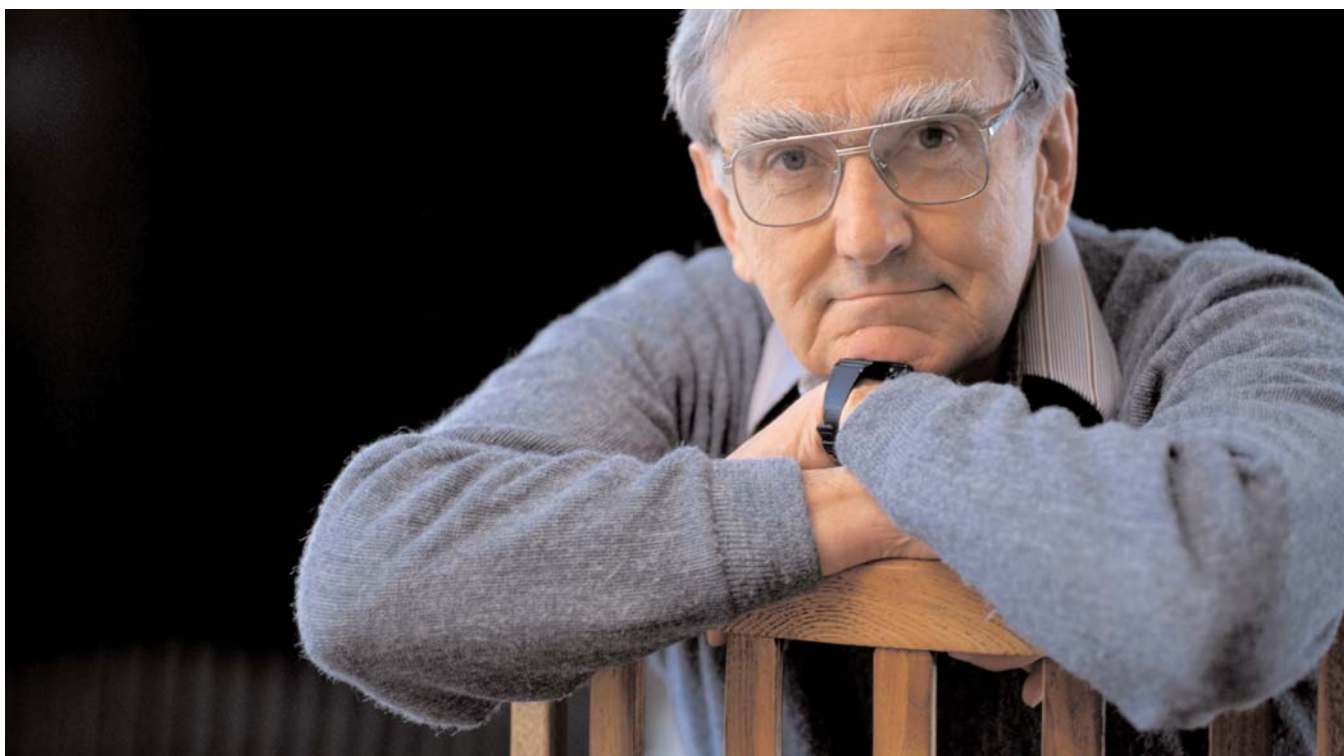
We have found, first of all, that there is a statistically significant link between the size of the non-employment rate and the composition of non-employment. Secondly, we have a series of related findings about the nature of the size–composition relationship for working age males:

- *a similar share* of the non-employed are ILO unemployed (that is without a job and actively seeking work) in the north as in the south.
- *a similar share* of the non-employed are in education and training in the north as in the south.
- *a smaller share* of the non-employed are retired in the north than in the south.
- *a larger share* of the non-employed are sick and/or disabled in the north than in the south.

Given that the non-employment rate has a distinct (and well-known) spatial pattern – higher in the north than the south – we can immediately infer the spatial pattern in its composition.

Moreover the findings about shares of non-employment can be re-expressed, quite straightforwardly, as proportions of the male working age population. Given, again, that the non-employment rate is higher in the north than in the south, it follows that the unemployed are, correspondingly, a larger proportion of the working age population in the north than in the south. Less appreciated, though, is the same implication which follows from the parallel finding about the share of education and training: the proportion of the working age population in education and training is also larger in the north than in the south.

Just one-third of the 60–64 year olds non-employed in the South East are sick/disabled, whilst in the North East it is closer to two-thirds.



The non-employment data by age also reveal quite striking regional contrasts, particularly with regard to older age groups. Unsurprisingly, male non-employment rates rise steadily after the age of 40. But what might not have been anticipated is that the north–south gap expands more or less in proportion to the rise in the rate, and this implies a dramatic change in relative composition. Just one-third of the 60–64 year olds non-employed in the South East are sick/disabled, whilst in the North East it is closer to two-thirds. Since these are shares of very different proportions of the age group population, the sick/disabled rates themselves are strikingly different: in the South East just 15% of 60–64 year olds are not working by reason of sickness or disability, in the North East the rate is two and a half times larger at 41%.

The challenge here to those who would disregard these findings as irrelevant to an understanding of how labour markets work is simple: is it coincidence that the composition of male non-employment across the regions is systematically and significantly correlated with the size of the male non-employment rate? Of course, such a relationship is not evidence of causality, but it is highly suggestive. So whilst health/education/ welfare policy may well affect the form in which nonemployment is recorded – whether the non-employed are classified as unemployed/education/sick-disabled/retired – it need not necessarily be its root cause. It follows then, by implication, that health/education/welfare policy may not necessarily be the appropriate cure. Indeed, our findings are consistent with the view that a shortage of jobs (a ‘jobs gap’) could well be the key to understanding some of the most striking north–south contrasts in labour market outcomes. It is less obvious how these findings might be made consistent with the alternative (‘individual employability’) view.

Indeed, our findings are consistent with the view that a shortage of jobs (a ‘jobs gap’) could well be the key to understanding some of the most striking north–south contrasts in labour market outcomes.

Skills in the South East

Joe Clease

Skills Insight

Skills shortages in the region were shown to be most serious in construction, manufacturing, health & social work and agriculture, with the most serious skills gaps in the region evident in construction and manufacturing.

In some regions specialist skills observatories work alongside regional observatories to provide detailed labour market intelligence. This short article gives a précis of Skills Insights' third Skills Review for the South East.

Written for this publication by arrangement with SEE-iN, the South East England Intelligence Network

Within the UK, the South East of England stands out as having a dynamic economy and labour market, a high employment rate, high skill levels, and high levels of growth and Value Added in its industries. If the region is to maintain this position, and achieve a similarly high status on the European and world stage, the continual development of the South East's skills base is crucial. Skills Insight's third Annual Skills Review for the South East provides an essential input into this process, by setting out the critical skills issues in the region, and the resulting policy implications.

The Review was especially timely in light of the Government's Skills White Paper published in July 2003 which not only addressed the sectoral dimension of skills, but placed a greater emphasis than ever before on skills development at a regional level, with particular emphasis on the role of regional partners in developing the skills base. Both elements, spatial and sectoral, are essential ingredients of the analysis in the South East Annual Skills Review.

The Review also revealed significant imbalances in the skills market. On the one hand, to maintain the South East's position as a high productivity region, there needs to be a focus on intermediate and high-level skills. The Review's detailed analysis identified skills gaps and recruitment difficulties and highlighted their policy implications. It further identified high demand for intermediate (level 3) skills and high-level skills (levels 4 and 5), as well as generic and management skills, along with some pressure in the market for these skills, which must be addressed if the South East is to compete globally. On the other hand, there remain deficiencies in basic skills among significant parts of the adult population, and in lower level skills in sectors such as construction, agriculture and land transport.

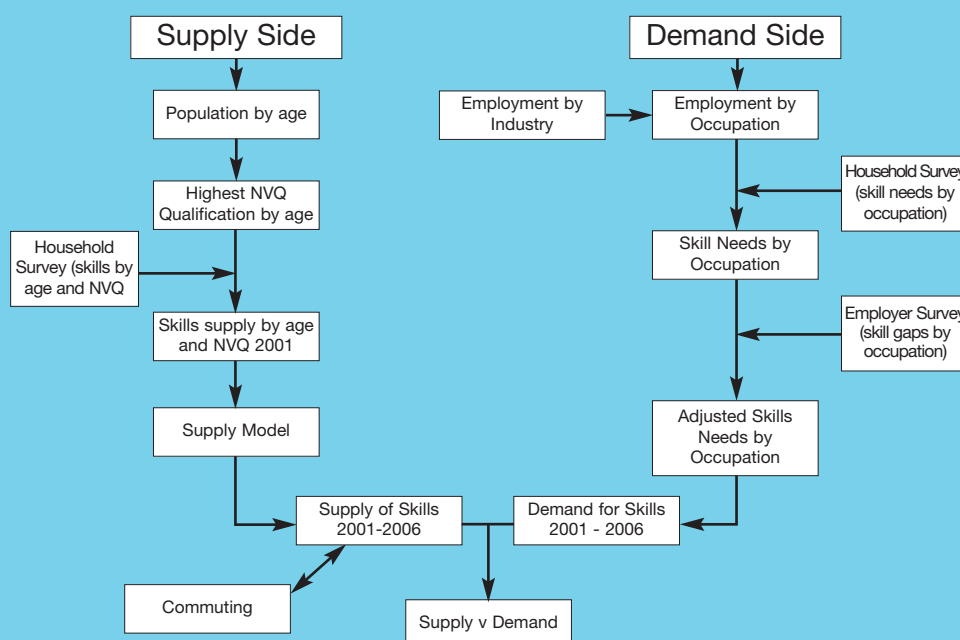
These must also be tackled to ensure a healthy, balanced labour market in which the workforce and individuals reach their potential.

The Review revealed that much of the forecast employment growth in the South East was in relatively low-paid occupations, with the associated risk of intensification across the dual labour market. Skills shortages in the region were shown to be most serious in construction, manufacturing, health & social work and agriculture, with the most serious skills gaps in the region evident in construction and manufacturing. The Review also highlighted that construction and health & social work had the worst absolute labour shortages in the region. Increased demand for skills across most occupations over the next five years was expected, but demand stimulation with respect to management skills may be required.

There is also an issue of spatial balance, and the Review highlighted the large and persistent disparities in skills demand and supply between different parts of the region, which contribute to significant economic and social inequities within this generally prosperous and successful region.

The Annual Skills Review draws on a wide range of data sources, including the Business Needs / Competitiveness Survey (looking at current and future skill demands of over 10,000 South East businesses), and a Household Survey (Skills Audit) assessing the skills possessed by the workforce and how those skills are utilised by employers. In looking ahead, the Review has also been informed by the skills forecasting model, which generates views of future skills demand under different economic scenarios. The Review aims to help decision-makers in a wide range of organisations, and to begin to address their "so what?" questions. The Annual Skills Review for the South East region can be downloaded from the Skills Insight website: www.skills-insight.org.uk

Forecasting the Future of the South East



Skills Insight and its partners have developed a forecasting model, designed to enable regional partners to plan effectively for the future employment, occupational and skills needs of the region. By enhancing skills and labour market intelligence, it provides an essential tool to assist decision makers and support effective resource allocation to meet the demands of the regional economy.

The demand side of the model augments regional and sub-regional employment and occupational forecasts. Results from employer surveys and household skills audits can be used to change the forecasts of employment by occupation into forecasts of future skills needs. This will offer businesses and partners in the region the opportunity to plan for economic and social change.

Additional intelligence on churn, migration, retirements and occupational switching is then used to convert the forecasts on the stock of occupations and skills into forecasts of future 'gross' rather than 'net' changes thereby taking in account replacement demand.

It is the supply side of the model, however, which is truly groundbreaking, enabling users to locate possible demand and supply imbalances for generic skills within the region.

The current version of the model incorporates commuting flows between the South East and London. The front end of the model is a user-friendly Excel spreadsheet, enabling easy access to key results at both the regional and Learning & Skills Council (LSC) sub-regional level. It also has the capacity for both manual scenario building and more complex scenario building through its inter-linkage with a full regional input-output model.

Many users complain that forecasting models simply spit out numbers that they are expected to interpret for themselves. Future developments will improve the ability of partners to use the model to answer "so what?" questions, such as "so what does this forecast mean for provision in Southampton?" and "so what does this mean for low skilled people in Kent?"

Qualifications by Ethnicity in London

Gareth Piggott

Data Management and Analysis Group,
Greater London Authority

What variations in qualifications are there amongst London's many ethnic groups? Using data from the 2001 Census, this article makes plenty of interesting observations about the differences in qualification levels between different ethnic groups, and within these groups, between males and females and those of different ages.

Reproduced with permission from *Londoners' qualifications: Analysis of 2001 Census data*, written and published by the Data Management and Analysis Group of the Greater London Authority.

Higher-level qualification proportions vary widely between different ethnic groups in London, from 15 per cent among the Bangladeshi population to 46 per cent in the Other White group. However, it should be kept in mind that variations between borough of residence are actually wider than this, ranging from 10 per cent in Barking and Dagenham to 60 per cent in the City.

The ethnic groups that have considerably lower proportions of people with higher-level qualifications in London are Bangladeshi (15 per cent), Mixed White and Black Caribbean (19 per cent), Black Caribbean (20 per cent) and Other Black (22 per cent). The groups with the highest levels of qualifications are Other White (46 per cent), Chinese (44 per cent), Other Ethnic group (41 per cent), Black African (38 per cent), Mixed White and Asian (36 per cent) and Indian (35 per cent).

The reasons why groups such as Chinese and Indian are well qualified may include family encouragement and the difficulties that some ethnic minorities may face in finding employment. Figures show that in 2003 there was a 23 per cent increase in the total number of international students at British Universities, with an 80 per cent rise among Chinese students and 82 per cent increase among Indian students, (which is likely due to a change of intake criteria for some international applications.)

Some variations by ethnic group may be explained by the different age structure of the populations but this cannot explain all the differences. A very low proportion of young people in Black ethnic groups hold

higher-level qualifications. Among 16-24 year olds in Black Caribbean (nine per cent) and Mixed White and Black Caribbean (seven per cent) groups, the percentages of people with higher-level qualifications are particularly low, especially when compared to Chinese (29 per cent) and Indian (23 per cent) people of the same age.

The White Irish group are the only group where there are high proportions of high achievers amongst young people and very low levels of high achievers among the older groups. Black Africans aged 35 and over stand out as high achievers when compared to the average meanwhile Black Caribbean and Bangladeshi groups for older ages are unlikely to hold higher-level qualifications.

Among some ethnic groups such as Mixed White and Black Caribbean, Mixed White and Black African, Indian, Bangladeshi, Black Caribbean and Other Black the difference in qualifications levels between London and England and Wales is only small. However, among White British, Mixed White and Asian, Chinese and Pakistani groups in particular, London experiences far higher proportions of well-qualified people. In Other Asian, Black African and 'Other ethnic group' England and Wales actually has a higher percentage of people with higher-level qualifications than London.

The differences relating to ethnic groups between Inner and Outer London show interesting variations. Among some groups, qualification levels in Outer London are far lower than Inner, while in other groups the opposite is true. For instance 30 per cent of the Bangladeshi population in Outer London possess higher-level qualifications, compared with just 12 per cent in Inner London (although there are almost five times more Bangladeshis living in Inner London than Outer London). The same

The White Irish group are the only group where there are high proportions of high achievers amongst young people and very low levels of high achievers among the older groups.

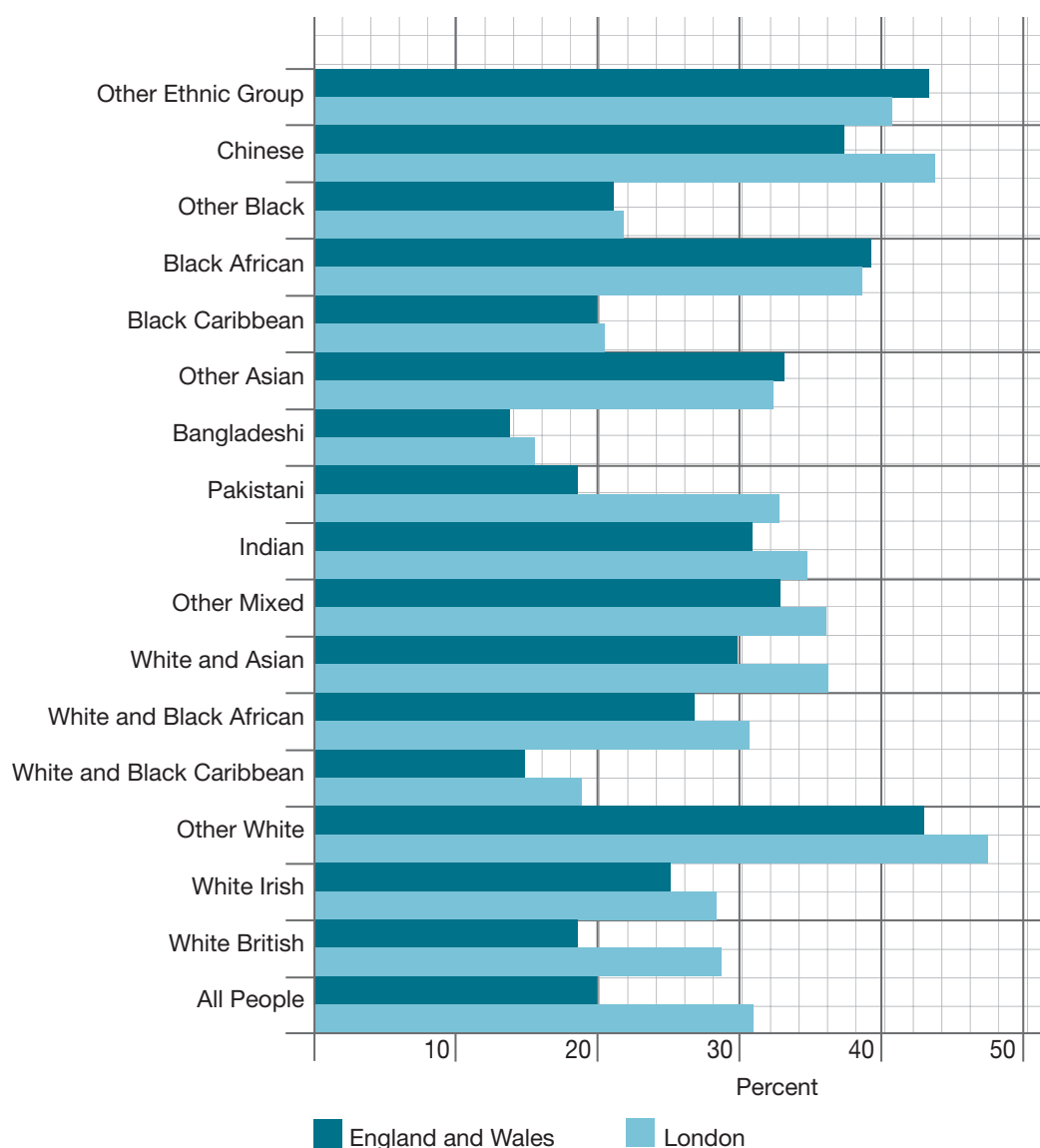


Fig. 13. Percentage of people aged 16-74 with higher-level qualifications by ethnic group
Source: 2001 Census, Theme Table TT013.

pattern occurs in Black Caribbean and Black African groups. However the opposite is true among White British, Mixed White and Asian, White Irish, Other White, Other Mixed and Indian groups, where Inner London has a far greater proportion of people with higher-level qualifications.

In terms of ethnic groups without qualifications, Bangladeshi (48 per cent) stands out as the ethnic group with the highest percentage with no qualifications, which may be explained by people from Bangladeshi communities being possibly more likely to look after the family/ home, less likely to have their first language as

English (or speak English at home) and Bangladeshi women are less likely to be in the labour market, than women from other ethnic groups.

The type of employment also may affect qualifications levels although the level of cause/effect between the two is not always clear. Bangladeshis have by far the lowest percentage of full-time employees in London but, significantly, the highest part-time percentage. This group also has amongst the lowest levels of self-employment, and the highest levels of unemployment/never worked (66 per cent are not currently working compared with the average of 37

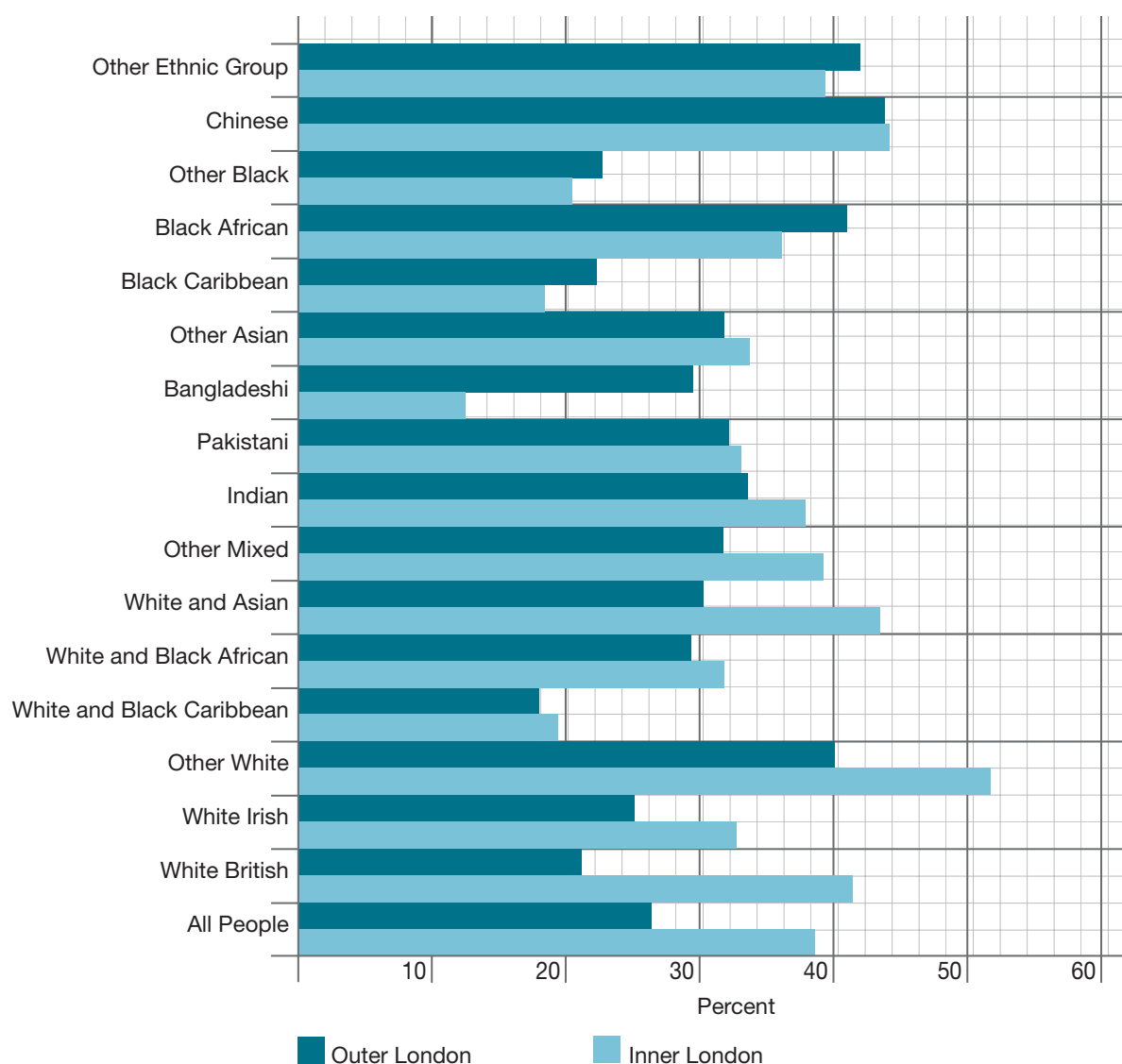


Fig. 14. Percentage of people aged 16-74 with higher-level qualifications for Inner and Outer London by ethnic group
Source: 2001 Census, Theme Table TT013.

per cent) and an above average percentage of full-time students (under 25).

The Bangladeshi group are less likely to hold higher-level qualifications than any other group, despite these high levels of participation among young Bangladeshis. It should be noted that the majority of these students are male (57 per cent compared with 44 per cent female), which is the largest gender difference of any ethnic group. Furthermore, although there is relatively high participation in education, as can be seen from Table 1, the Bangladeshi population has a low percentage of people holding higher-level qualifications in every age group, including

the young age groups. As discussed, rates of higher-level qualifications are very high among Chinese people. This is particularly true among young Chinese people and particularly in the 25-34 year age group, where 70 per cent hold higher-level qualifications.

The Black African ethnic group shows some interesting characteristics. Black Africans aged 16-24 are well below average in terms of higher-level qualifications held, then by ages 25-34 they are around the average but over 35, they have very high percentages of people with higher-level qualifications and indeed the highest rates of any ethnic group over the age of 50.

Rates of higher-level qualifications are very high among Chinese people. This is particularly true among young Chinese people and particularly in the 25-34 year age group, where 70 per cent hold higher-level qualifications.

Table 1.		Percentage of people with higher-level qualifications by ethnic group and age group in London					
	ALL	16-24	25-34	35-49	50-59	60-64	65-74
All people	31.0	20.6	47.3	32.8	24.3	17.6	14.2
White							
British	28.7	21.6	46.1	30.3	21.1	15.1	12.7
Irish	28.0	26.7	49.5	33.9	16.9	13.1	12.1
Other White	46.4	29.0	60.0	48.7	38.3	27.5	23.0
Mixed							
White and Black Caribbean	18.5	7.1	27.5	22.4	25.6	19.7	21.2
White and Black African	30.5	13.5	39.9	35.4	29.6	27.7	22.8
White and Asian	35.8	17.8	53.7	38.4	28.7	26.3	22.3
Other Mixed	35.6	16.8	50.5	40.1	36.9	28.7	24.2
Asian or Asian British							
Indian	34.4	23.2	56.1	31.5	28.5	25.8	21.4
Pakistani	32.3	19.6	47.3	30.2	32.5	28.4	25.6
Bangladeshi	15.1	10.6	21.1	14.4	18.8	12.0	8.4
Other Asian	31.9	16.5	37.9	33.6	39.1	33.1	27.9
Black or black British							
Black Caribbean	20.2	8.9	27.4	22.6	24.8	14.3	11.5
Black African	38.3	13.6	45.3	45.6	42.7	36.7	29.6
Other Black	21.6	9.2	28.3	25.2	31.6	21.6	16.6
Chinese or other ethnic group							
Chinese	43.5	28.8	69.6	43.8	34.9	22.1	15.1
Other Ethnic Group	40.8	19.9	51.5	45.0	40.7	30.0	24.6

Source: 2001 Census, Standard Table ST117.

The White British and Irish groups both show an average level of qualification at ages under 35 but above this age, these groups tend to perform worse than most of the other ethnic groups. For example by age 60, only Black Caribbean and Bangladeshi have lower levels of qualifications, both of which have low qualifications levels in all age groups.

The Indian and Pakistani groups both follow the average fairly closely up to the 50-59 age group, although Indians aged 25-34 tend to do better than average. Above 50, both these groups possess better than average levels of qualifications. In the Pakistani

group, the percentage of students aged under 25 is very high among males but far lower among females (67 per cent compared with 55 per cent).

White Irish (40 per cent), Black Caribbean (32 per cent), White British (31 per cent) and Other ethnic groups (31 per cent) also all have relatively high proportions of people with no qualifications.

As discussed there are low levels of qualifications among older people in general, although the absolute numbers in some ethnic groups in these age groups are actually very low. For example, in the

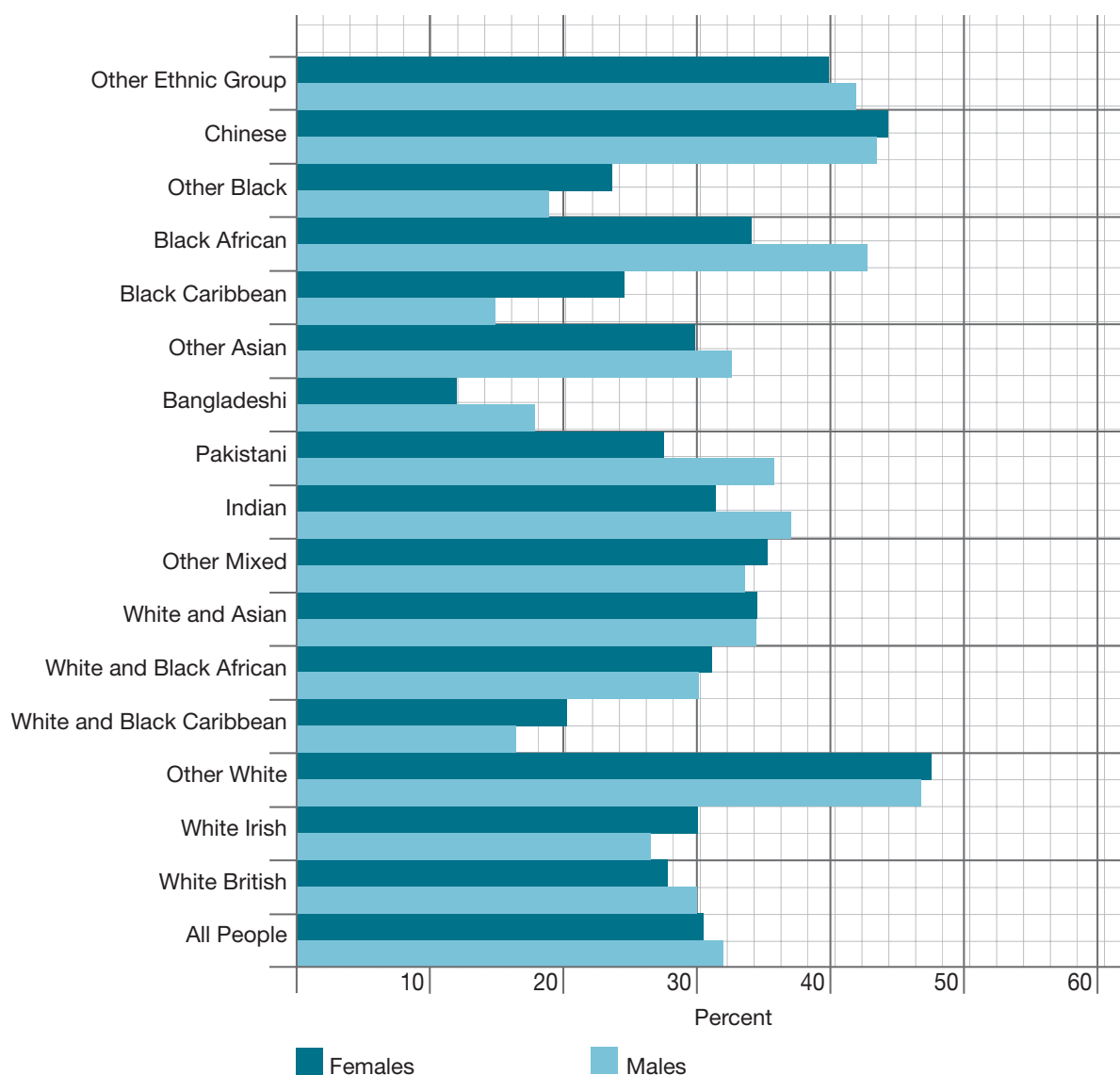


Fig. 15. Percentage of people with higher-level qualifications by ethnic group and gender for London
Source: 2001 Census, Commissioned Tables M244.

Bangladeshi group, the lowest qualified ethnic group at aged 65-74, just four per cent of the Bangladeshi population are this age compared with 11 per cent of White British and 15 per cent of White Irish. Also, in the Black African group, which is the most qualified group at age 65-74, only two per cent of the population are of this age.

The chart showing qualifications by gender shows up some noteworthy differences by ethnic group. Most ethnic groups have slightly more males than females with higher-level qualifications with some notable exceptions. Chinese, Other Black, most of the mixed groups, Other White and White

Irish have slightly more females than males with higher-level qualifications. Moreover, the Black Caribbean group has a far higher percentage of women than men with higher-level qualifications. On the other hand but equally as notable, are the Bangladeshi, Black African, Indian and Pakistani ethnic groups where a significantly higher proportion of men than women hold higher-level qualifications. These differences between genders are confirmed in the England and Wales figures, which demonstrate a similar pattern.

There are two ethnic groups where polarity is quite prominent. Among the 'Other ethnic group' there are both high percentages of

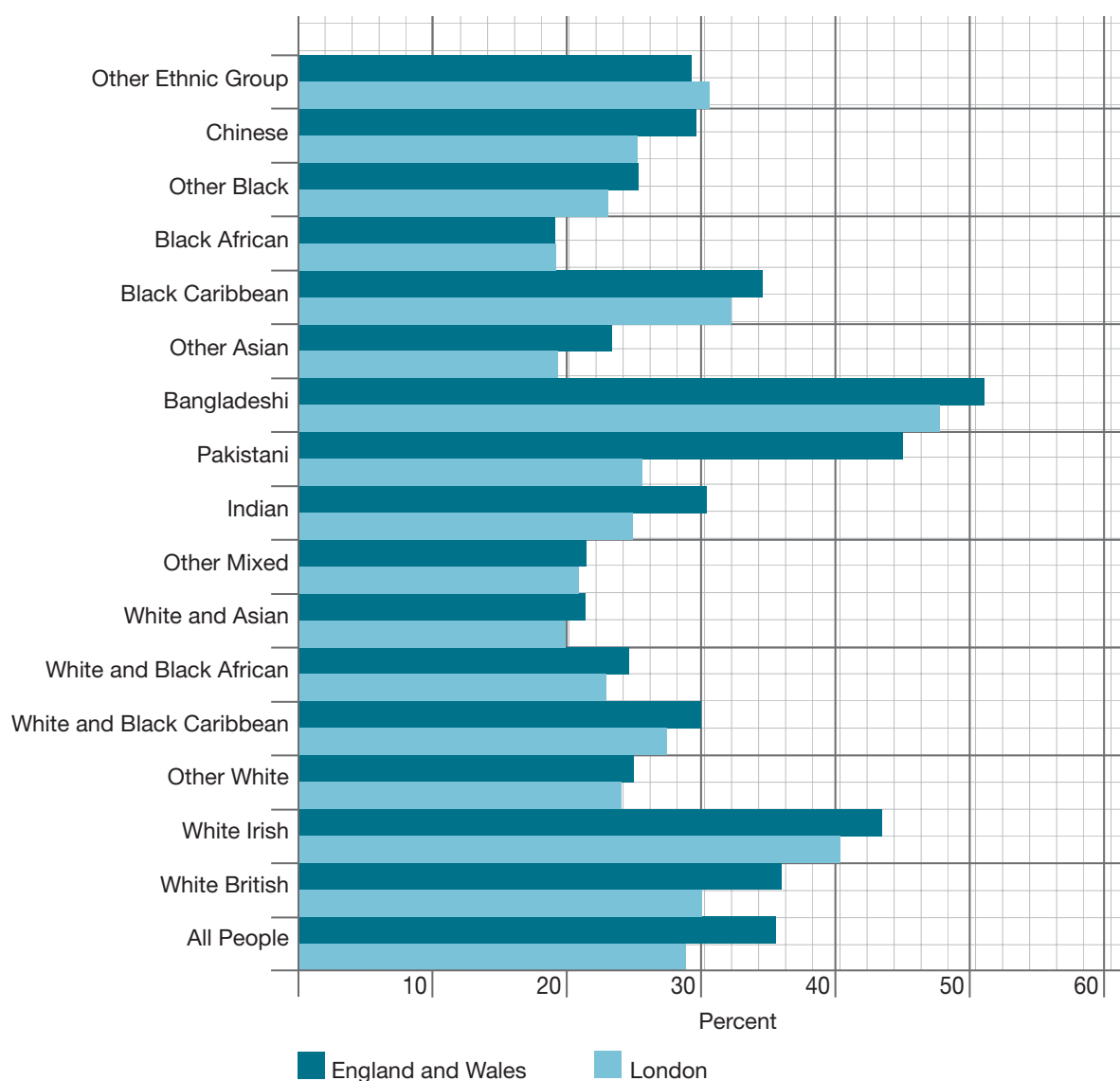


Fig. 16. Percentage of people aged 16-74 with no qualifications by ethnic group
Source: 2001 Census, Theme Table TT013.

people with higher-level of qualifications and high levels of people with no qualifications. Conversely, among the 'Other Black' group there are low levels of people both without qualifications and with higher-level qualifications. This may be because these categories are 'remainders' and contain a mix of different people and not just one specific group.

The ethnic group with the highest percentage of 'other qualifications/level unknown' is Black Caribbean, followed by Other Black and White Irish. The ethnic groups with the lowest percentages of this are in the Asian and Chinese groups.

This may be either because not many qualifications are held by these groups, which seems more likely among the Bangladeshi group, or because these groups tend to hold unrecognised qualifications.

It should be considered that some ethnic groups might have achieved qualifications in countries outside the UK, which may have been difficult to code and compare with British qualifications. Therefore, people with foreign qualifications may be underestimated here. A lack of skills in English may hinder the educational progress of some people from ethnic minorities and

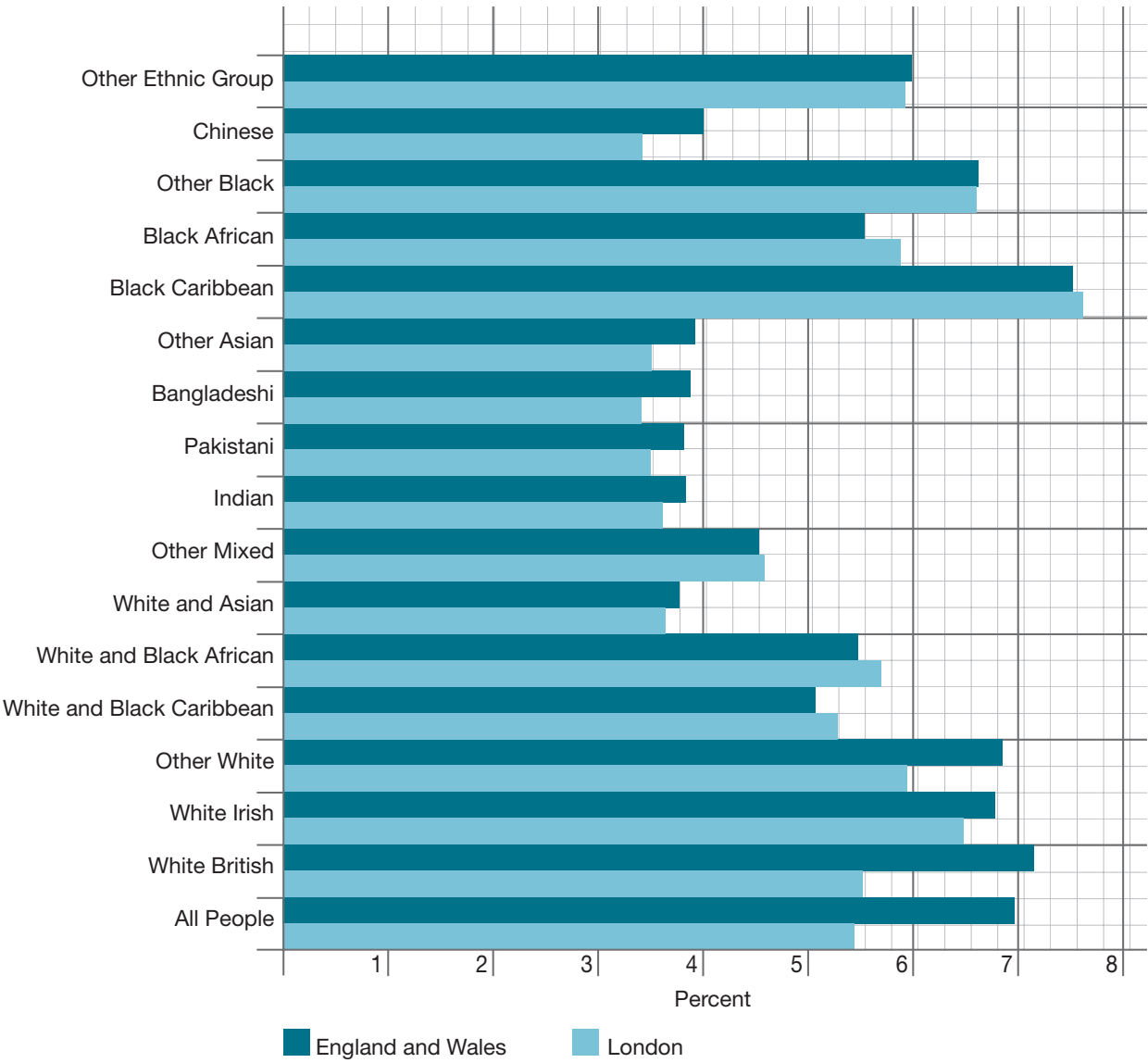


Fig. 17. Percentage of people aged 16-74 with other qualifications/level unknown by ethnic group
Source: 2001 Census, Standard Table ST117.

may lead to fewer entering higher education. It may also be useful to conduct some further analysis, which combines ethnic group with country of birth, which may show that people born in the UK are less likely to experience this problem.

Quality of Life

Faith in the Northwest

Northwest Regional Intelligence Unit and Churches'
Officer for the Northwest

Social Exclusion in the East of England

Observatories Social Exclusion Partnership

Housing and Services in the North East

North East Regional Information Partnership

Quality of Life in Yorkshire and Humber

Ben Smith

Yorkshire Futures

Faith in the Northwest

Northwest Regional Intelligence Unit and Churches' Officer for the Northwest

Although a lot of regional observatory work goes to supporting economic development policy, there is a wide and broad remit that reaches as far as this research report into the impact of religious groups in the Northwest. The executive summary for that research, reproduced here, points to some interesting findings – concentration in deprived areas, involvement in regeneration programmes, and high numbers of volunteers.

Reproduced with permission from the Northwest Development Agency from *Faith In England's Northwest: The Contribution Made By Faith Communities To Civil Society In The Region*, a publication supported by the Northwest Development Agency, North West Regional Assembly, and Churches' Officer for the Northwest.

This survey of more than 2,300 faith communities across eight faith groups powerfully demonstrates that they make an important contribution to our region's social and economic life. Supported by the Northwest Development Agency and the Northwest Regional Assembly, this survey is notable both for the light it casts on faith's role in areas that range from neighbourhood renewal to tourism, and for the high level of response it stimulated from those who were surveyed: more than half of those who received surveys took the time to complete and return them.

The Churches Officer for the Northwest and the Regional Intelligence Unit conducted this survey of the region's faith communities, which shows that they are actively engaged in local partnerships and the delivery of services to the community. Many, for example, occupy listed buildings that they maintain, conserve and make available for the wider use of the local community. Some larger buildings – and in particular cathedrals – are important tourism destinations and increasingly offer refreshment facilities.

Faith communities also provide organised support services. This survey shows that almost half of our rural churches were involved in schemes to counter the Foot and

Mouth crisis, for example, and a number of respondents stated that they were directly involved in local regeneration schemes including the Single Regeneration Budget (SRB), Sure Start, Learn Direct and their Local Strategic Partnerships.

More than 5,000 important projects were identified in the survey, with faith communities running or managing schemes to address homelessness, racism, crime, drug and alcohol abuse, health, skills development, art, music and environmental improvements. Across the survey results it was particularly evident that faith communities are extensively involved in providing services for older people, children and the more deprived neighbourhoods of the region.

How are these services, projects and local schemes delivered? The survey shows that almost all of the important work carried out by faith communities is voluntary, with a more than 45,000 volunteers working through faith communities on non-worship related projects.

Importantly, this contribution to our region's quality of life and economy is not confined to Christian denominations. This survey of faith communities covers all the key world faiths including Baha'i, Buddhism, Hinduism, Islam, Jainism, Judaism and Sikhism. Amongst the Christian faith community our survey was sub-divided into nine groupings: Church of England (Anglican), Roman Catholic (R.C.), Methodist, Baptist, United Reformed Church (URC), Quakers (Society of Friends), Salvation Army, Evangelical, Charismatic & Pentecostal, and 'Other Christian' communities such as Orthodox,

Faith communities are extensively involved in providing services for older people, children and the more deprived neighbourhoods of the region.

Unitarians, Independent Methodists, Congregationalists, Church of Scotland and Christian Scientists.

As the scope of this survey shows, the ‘faith sector’ is undoubtedly diverse and for many working with it or within it, this diversity has made it difficult in the past to interface or engage effectively with such a substantial sector of society. This survey, and plans for a future regional inter-faith forum, will help to plug a key gap in our regional intelligence and help those in the public, private and voluntary sectors to engage effectively with faith communities. And that engagement is essential. Faith communities are a vital resource. Their diversity, and the fact that they are composed largely of lay people, are important strengths upon which we can build new, productive partnerships.

Faith communities can help those working for regeneration, social inclusion or sustainable development to reach out to many of those who could be defined as ‘hard to reach’, or as the Home Secretary, David Blunkett recently put it: “Every faith has a ‘development worker’, full or part-time, paid or voluntary. In other words, the priest or pastor, the vicar or minister, the teacher, Imam or Rabbi. This is a resource available to all areas of our country, even the most deprived, the least active and the most likely to be disengaged from the political process.”

Key Findings

Faith communities are keen to be listened to.

There was a high level of response with 54 per cent of the survey’s 4,400 questionnaires being returned. The response was particularly good for minority faith communities, including a response rate of 68.9 per cent for the Sikhs, 53 per cent for Jews, 50 per cent of Baha’is, 43 per cent for Moslems, and 39 per cent for Hindus. Christian responses account for 93 per cent of the total with a response rate ranging from 63 per cent for Anglicans to 22.4 per cent for the Evangelical, Pentecostal, and Charismatic churches.

Faith communities are strongest where social need is highest.

The distribution of faith communities who responded to this survey matches



population density, with 45 per cent of those who responded describing themselves as urban, 27 per cent as rural, and 28 per cent as suburban. Mapped against the Index of Multiple Deprivation responses returned demonstrate that faith communities, whilst represented in the most affluent areas, are concentrated in areas of highest social need. Faith communities also assist some of the most vulnerable social groups, including older people and children.

Faith communities are important custodians of built heritage.

From the total of 2325 faith communities who responded, 34 per cent stated that their building was listed, with the majority of these coming from Church of England (63.7 per cent). These buildings are a significant community resource, too. Almost all of those surveyed (2282 respondents) indicated they have rooms used by other local community groups.

Faith communities bring visitors and tourists to the region.

A high percentage of faith communities who responded indicated that they welcome visitors, and Cathedrals and other more prominent places of worship stated that they respond to the needs of visitors, sometimes with toilets and refreshment facilities provided. The findings demonstrate untapped potential in many more communities, both urban and rural for an increased level of ‘faith tourism’.

Faith communities offer social support services.

Faith communities often play a support role, particularly during periods of crisis. One example of how the faith network can mobilise in time of need was the response to the Foot and Mouth crisis, where 45 per cent of rural Christian Churches who responded indicated an involvement in support initiatives.

Of the faith communities responding to the survey 27 per cent indicate they have received public funding while a majority, 73 per cent, have not.

Faith communities are active delivery agents of care in their local communities.

The survey revealed that many faith communities were engaged in community projects unrelated to worship or religious activity. One in ten stated that they were managing or organising projects addressing a wide range of social issues including housing, homelessness, anti-racism, crime prevention, drug and alcohol abuse, employment and training, social enterprise and personal finance. From returns received, health and fitness, Art, music and education also score highly across all faith communities. 14 per cent of all faith communities also indicate that they organise, run or manage environmental projects. In total 5140 non-worship projects were identified by the survey.

Faith communities are significant patrons of arts and sports.

The survey sought evidence to justify the claim that faith communities continue to exercise a significant role in supporting sports and cultural activities. Responses indicate substantial engagement in choral and instrumental music, dance, drama and the visual arts. 51 per cent of faith communities indicate regular and organised involvement in football and 33 per cent in fitness training.

Faith communities stimulate unprecedented levels of volunteering.

Virtually all activity undertaken by faith communities is dependent on volunteers and based on the estimates of those who responded, the survey demonstrates that there are 45,667 volunteers in England's Northwest involved in activities in the community other than worship.

Faith communities have an important part to play in regeneration programmes.

Faith communities are increasingly recognised for the important role they can play in regeneration partnerships. The survey sought to discover the level of involvement in government sponsored regeneration initiatives throughout the region and of those who responded 248 are involved in Single Regeneration Budget (SRB) schemes, 224 in Sure Start, 62 in Learn Direct, and 95 in other regeneration initiatives.

More could be done to involve faith communities.

Government has indicated the value that faith communities can bring to Local Strategic Partnerships (LSPs). The survey findings suggest that the message does not appear to have penetrated all faith communities and all local authorities. 40 per cent of all Christians who responded are aware of LSPs, of whom 53 per cent have been approached by Local Authorities to participate. Significantly faith communities who responded from within non-Neighbourhood Renewal Fund areas identify themselves as having made the least progress.

Faith communities are largely self-financing.

Of the faith communities responding to the survey 27 per cent indicate they have received public funding while a majority, 73 per cent, have not. Responses indicate an almost equal measure of success across all faith communities in the percentage of each who have been successful with funding applications. Local Authorities, English Heritage and the Lottery top the list of sources of funding for those who responded.

Faith communities reach the parts of society that others can't.

Faith communities contribute towards community cohesion in its widest sense. The survey findings underline the social and economic role played by faith communities and appear to reinforce the claim that the faith communities are closer to groups that other agencies find 'hard to reach'.

Social Exclusion in the East of England

Observatories Social Exclusion Partnership

Regional bodies are usually interested in research at smaller geographical levels, to guide policy decisions at sub-regional, local authority, and neighbourhood level. This is easy to understand when considering the following extract from *Social Exclusion in the East of England* – not a place commonly associated with poverty and deprivation. As explained in the report, there is a clear geographical pattern to social exclusion, meaning that interventions need to be well targeted, and that research needs to be fine-grained.

Reproduced from *Social Exclusion in the East of England*, with permission from the East of England Regional Observatory.

Who is excluded in the East of England?

Social exclusion is not confined to a small number of people in specific places. A significant fraction of the population throughout the East of England lives with a low income, poor skills, in poor housing and with limited opportunities to fulfil their potential.

The central feature of social exclusion under any definition is low income. Traditionally, the government has defined low-income households in terms of mean income, focusing on half-mean income in particular. However, since 1998, the European Union has used a threshold of 60% median income for international comparisons, and this measure is now widely used by the UK government and research organisations such as the Joseph Rowntree Foundation and the New Policy Institute. Both thresholds are now used in the Households Below Average Income (HBAI) survey and in the Government's annual report on tackling poverty and social exclusion. This is a valid, simple, and consistent measure that can be used as an indicator of how well we are doing as a society to minimise and eradicate such poverty.

The HBAI survey presents information on the characteristics of individuals and households at various points in the

income distribution. The data show that in the East of England:

- 14% of working age adults are in households with an income below the poverty threshold (60% median income) after housing costs. This represents 448,000 people of working age in poverty.
- 25% of pensioners are in households with an income below the poverty threshold after housing costs.

Analysis of PayCheck data for the year 2001 shows that 34% of households in the East of England have an income of £15,000 or less per annum.

The distribution of household income, based on this data, is shown in Figure 1.

These figures provide a snapshot of the number and proportion of household incomes at a particular time. However, we know that some groups of people are more at risk of poverty and social exclusion:

- Individuals in workless families, lone-parent families, single pensioners, some ethnic minority households and disabled people are more likely to be on low incomes and be persistently poor. According to the 2001 Census, there are 118,081 lone-parent households in the East of England and 315,565 single pensioners living alone. The proportions vary significantly across the region. Tendring ranks fourth in the country for one-pensioner households, which form more than 21% of its households.

Excluded people and populations are not evenly spread throughout the region. Neither are they heavily concentrated exclusively in certain areas. Hence the importance for a balance between area-based initiatives and other, thematically based, initiatives.

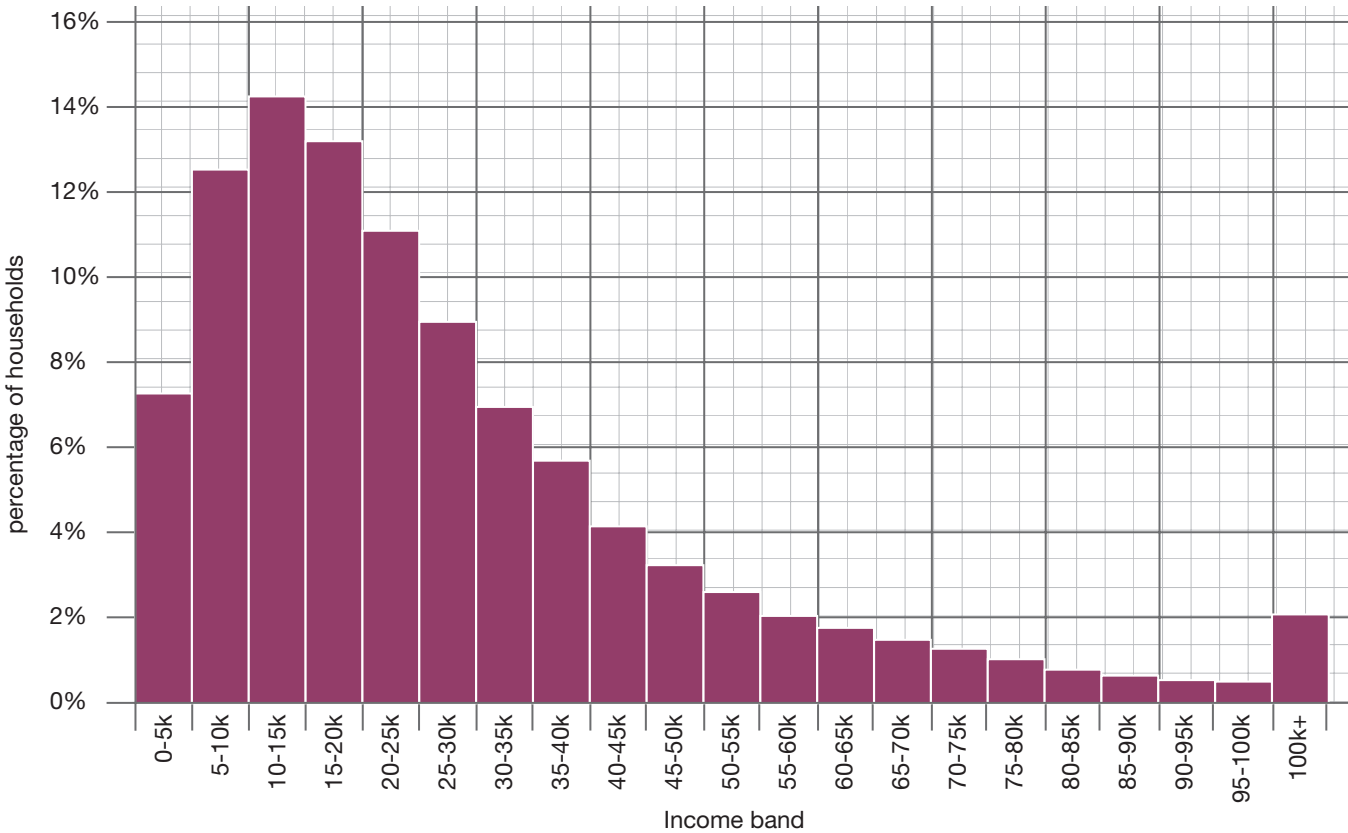


Fig. 1. Distribution of household income, East of England 2001
Source: PayCheck data from CACI Ltd (Ref 12).

- Unemployment rates for some minority ethnic communities and people with disabilities are over twice the regional rate. Members of some minority ethnic communities with any given qualification level have over twice as much chance of being unemployed as equally qualified white people.
- Beyond the quarter of pensioners in the region who are living in poverty, discrimination in employment and reliance on public transport are also issues that can affect older people and place them at risk of social exclusion.

- the coastal areas and the north of the region;
- the urban areas of Luton, Stevenage, Harlow, Southend and Basildon.

There are 54 wards in the region (out of a total of 1192) where half or more of the households are earning below the threshold income, with Golf Green (Tendring), Nelson (Great Yarmouth), Lynn North (Kings Lynn and West Norfolk), Magdalen West (Great Yarmouth), Harbour (Waveney) and Central (Peterborough) having the highest proportions of such wards. Across the region, poor wards exist alongside affluent wards, in both urban and rural areas.

Where are the excluded people in the East of England?

Excluded people and populations are not evenly spread throughout the region. Neither are they heavily concentrated exclusively in certain areas. Hence the importance for a balance between area-based initiatives and other, thematically based, initiatives.

Although there are pockets of poverty throughout the region, there is a clear geographical pattern of these lower income wards. Those wards with a higher proportion of households earning below £15,000 are mostly situated in two sorts of area:

Rural deprivation

The dynamics of deprivation can be different between rural and urban areas – the IMD has been criticised for not accurately reflecting deprivation in rural areas. The Countryside Agency's report on the state of the countryside in the East of England includes the following findings:

- The region's rural households have poorer geographical availability of all services for which this is measured, than the average for rural England. The region has the highest average distances from rural households to automatic teller machines, primary and secondary schools, libraries, supermarkets, banks and building societies, and the second highest to job centres, petrol stations and doctor's surgeries, of any English region.
- The rural population in the East of England is less healthy than its urban counterpart in terms of the proportion of babies born at low birth weight (i.e. less than 2500g).
- A rural resident in the East of England with average earnings would be slightly less capable of purchasing a typical house than their urban counterpart.

On the plus side:

- The incidence of crime was lower in rural areas of the East of England than in the urban areas.
- In 2002, rural districts had lower levels of claimant unemployment than urban districts.

These headline figures can mask specific issues. Many income-deprived wards lie to the north of the region, in Norfolk and along the Suffolk and Essex coast. Employment opportunities, and access to education, can be very different in rural areas from those in urban wards. Although claimant count rates are lower, evidence shows that there are high levels of hidden unemployment in rural areas (often prematurely retired individuals and married women with spouses in employment). Seasonal and part-time employment are highest in rural areas.



Earnings are generally much lower in rural districts (£322.76 gross weekly pay in 2000 compared with £354.27 in urban areas). This difference is even more significant against a background of wealthy people moving from inner city areas to suburban areas and small towns around larger cities.

Trends in demography are also important. The rapid population increase of retired people, and the sudden trends in migration for working people, are changing the social structure of rural areas, and the service needs of those living there. Retired couples who have moved to a rural area may lose their personal mobility, their spouse, and their social networks. This leaves them isolated in an area that may suffer from poor public services (such as public transport) and limited care provision nearby.

Barriers to accessing services are felt acutely in rural localities. There are greater distances to travel and poorer public transport links. Poor access may not always be physical - other factors affect access to services for different groups across the region, such as cultural and linguistic barriers. All these factors may have different implications for income mobility, poverty, employment transitions and quality of life. Any policy to tackle social exclusion needs to look beyond the headline indicators, and to recognise the specific issues affecting particular localities.

Many income-deprived wards lie to the north of the region, in Norfolk and along the Suffolk and Essex coast.

There are well-recognised risk factors that precipitate exclusion. These include poverty, unemployment, family breakdown, being in care, school problems, being an ex-prisoner, being a member of particular ethnic minorities, living in a deprived neighbourhood, mental health problems, age and disability.

Why does social exclusion persist in a relatively wealthy area such as the East of England?

There are well-recognised risk factors that precipitate exclusion. These include poverty, unemployment, family breakdown, being in care, school problems, being an ex-prisoner, being a member of particular ethnic minorities, living in a deprived neighbourhood, mental health problems, age and disability.

In practice, there is no single cause of social exclusion. Rather, past influences (such as childhood circumstances, housing, etc.) combine with present constraints and choices (for example, problems facing a community or an individual) to produce outcomes that feed back into influences.

For example, teenage mothers are less likely to finish their education, less likely to find a good job and more likely to end up as single parents and to bring up their children in poverty. The children run a much greater risk of poor health, and have a much higher chance of becoming teenage mothers themselves. However, teenage pregnancy is not in itself a cause of social exclusion. The circumstances in which individual decisions are made (e.g. low expectations and poor education) are

important in understanding the context. Similarly, the risks of poor health for children of teenage parents can be caused by many factors, such as lack of access to services and lack of social support. It is clear that there is no simple explanation for social exclusion – rather, in each situation we need to understand and address the most relevant causal factors.

In most cases, a main driver of exclusion is economic. Government policy recognises that poverty and unemployment are at the heart of neighbourhood decline and social exclusion, but are compounded by a range of social problems (such as family breakdown, poor health, youth disaffection, drugs and crime). These can in turn erode the community fabric even further.

The main factors associated with entry into or escape from poverty are:

- *Labour market events:* Employment and/or change in earnings are the most important events associated with entry into and escape from low income. Lack of work is an important risk factor for short-term and persistent low income. Among those of working age on persistently low incomes, 60% are in workless households. Income differentials are generally increasing, and there is little earnings mobility for people on low incomes.
- *Family related events:* Divorce, marriage and childbirth are also associated with changes in income. Sometimes work events and family related events are connected; for example, a divorce may lead to loss of work if a lone parent cannot make adequate childcare arrangements.



Table 1. Population aged 16-60 with poor literacy and numeracy skills, 2001				
	Poor literacy, numbers	Poor literacy, %	Poor numeracy, numbers	Poor numeracy %
Bedfordshire	78700	23.2	78438	23.1
Cambridgeshire	94123	21.3	92826	21.0
Essex	210883	22.1	207062	21.7
Hertfordshire	128670	20.7	125808	20.2
Norfolk	107604	23.8	104765	23.2
Suffolk	89443	23.1	87451	22.6

Source: Basics Skills Agency (Ref4).

Labour market

Within the labour market, in March 2002 there were 59,400 claimant unemployed across the East of England, of which 12.2% were unemployed for over 12 months. More significantly perhaps, there is a large group of working age people with no qualifications and poor basic skills (see Table 1).

The areas with the poorest performance in terms of educational achievement are found toward the east of the region, specifically in areas of Essex and Suffolk. The districts with the highest percentage of the working age population with no qualifications are: Tendring (28%), Fenland (23%), Basildon (23%), Harlow (23%), Braintree (22%), Thurrock (21%) and Ipswich (20%).

The 2001 Census paints an even bleaker picture. It shows that the proportion of people aged 16-74 with no qualifications in the region was 28%, ranging from over 38% in Tendring, Fenland and Great Yarmouth to 16% in Cambridge.

The figures are stark: approximately 700,000 people have poor basic skills and almost one third of the population in many parts of the region has no qualifications – a total of around 1.08 million people according to the 2001 Census.

Housing and Services in the North East

North East Regional Information Partnership

The North East is the second least-deprived of all the regions in England, behind the North West.

The report the following extract is taken from is based on NERIP's secondary analysis of the Super Output Area data from the 2004 Indices of Deprivation (ID 2004), and aims to describe the implications of the IMD for the North East. This extract is a good example of the simple ways in which observatories attempt to widen access to research and statistics, using graphs and commentary. The 'Barriers to housing and key local services' section of the report is re-produced below.

Reproduced from What the Indices of Deprivation 2004 Mean for the North East.

The Indices show that the North East has considerable strengths in terms of housing, the living environment and access to services. Generally, however, the North East is more disadvantaged than the other regions of England, but there are significant differences and contrasts within the region.

Barriers to housing and key local services

This section provides further analysis of the barriers to housing and services domain indices of deprivation between the nine regions of England and within the North East.

The smallest geographical unit for this is the Super Output Area (SOA), averaging about 1500 people. We have taken the national rankings of SOAs within each domain, as provided by the Government, and carried out two further analyses for each domain:

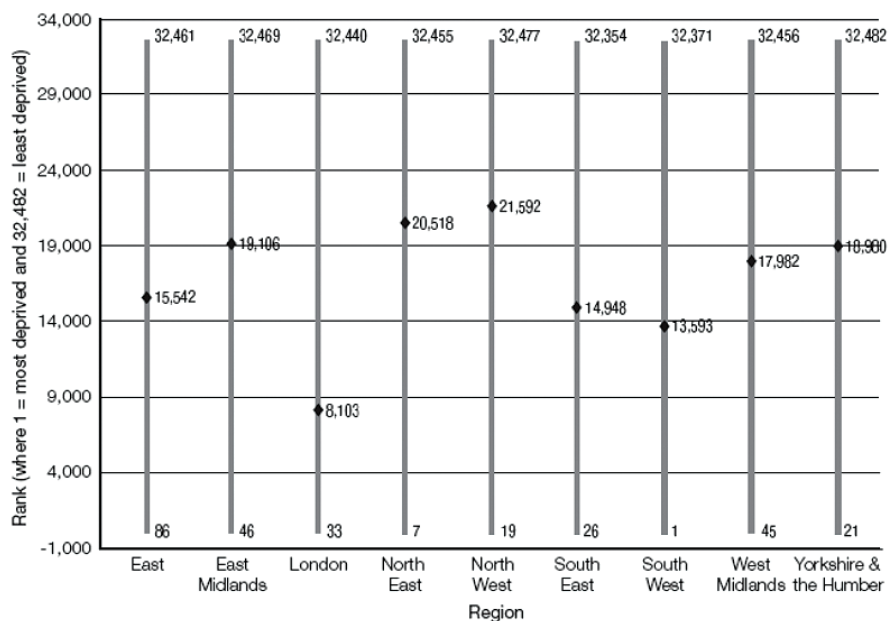
- an Inter-Regional analysis of each domain examines the range of SOA ranks within the region, and compares the population weighted mean rank of SOAs for the North East with that of the other eight regions in England
- an Intra-Regional analysis of each domain aims to illustrate the distribution of SOA rankings within each district within the North East. If all English districts were

identical then it might be expected that each district would have equal numbers of SOAs in each of the ten deciles of degrees of deprivation. The deviation from the national distribution illustrates the "clustering" of populations in both "highly" deprived areas and "lesser" deprived areas. For each domain, a graph is provided. On each graph, blue diamonds illustrate the ranks of SOAs, while red diamonds illustrates the median (middle) rank position of SOAs in each district.

The purpose of this domain is to measure barriers to housing and key local services. The findings for the North East in this domain are in contrast to those in most of the other domains.

Inter-Regional Analysis

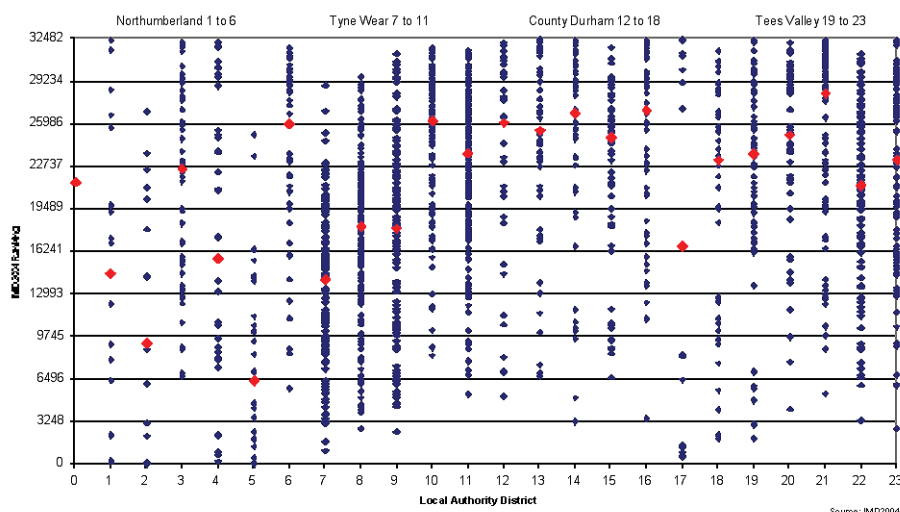
The analysis of this domain uses the population weighted mean rankings, and shows that the North East is the second least-deprived of all the regions in England, behind the North West. The most deprived region with the lowest statistics is London with a ranking of 8,103. Once again all regions exhibit significant disparities within their boundaries, with all regions having SOAs ranked in the “most” and “least” deprived 100 SOAs in England.



Intra-Regional Analysis

The median rank for the North East on this domain is 21,560 – well above the national average. There are nine districts in the region with median statistics below the regional median, with Berwick (9,301) and Tynedale (6,361) being the only districts below the fifth decile (12,993 to 16,241). The best performing district is Middlesbrough with a median rank in the second least deprived decile, while another five districts have median ranks in the ninth decile (25,986 to 29,234).

The distribution of SOAs within the region by district illustrates that although the SOA ranks are skewed towards the “least” deprived ranks, there are still a number of districts with SOAs ranked in the “most” deprived areas. Eleven districts have at least one SOA in the bottom decile, although in total there are only 46 of 1656 north eastern SOAs ranked in this decile on this index.



IMD2004 Housing & Services Ranking by North East Local Authority District
Source: IMD2004.

- | | |
|-----------------------|-------------------------|
| 1 Alnwick | 13 Derwentside |
| 2 Berwick upon Tweed | 14 Durham (City) |
| 3 Blyth Valley | 15 Easington |
| 4 Castle Morpeth | 16 Sedgfield |
| 5 Tynedale | 17 Teesdale |
| 6 Wansbeck | 18 Wear Valley |
| 7 Gateshead | 19 Darlington |
| 8 Newcastle upon Tyne | 20 Hartlepool |
| 9 North Tyneside | 21 Middlesbrough |
| 10 South Tyneside | 22 Redcar and Cleveland |
| 11 Sunderland | 23 Stockton-on-Tees |
| 12 Chester-le-Street | |

Quality of Life in Yorkshire and Humber

Ben Smith

Yorkshire Futures

The East Coast Main Line rail route contributes £100 million annually to the regional economy.

Observatories disseminate and explain research, often by attempting to widen access by placing things into a regional context. This extract is taken from an article that picks out some of the key findings from the 2002 *Regional Quality of Life Counts*, raising the profile of the sustainable development headline indicators, and explaining how Yorkshire and Humber is performing.

Reproduced with permission from 'Key findings from the Regional Quality of Life Counts 2002' - an article prepared by Yorkshire Futures for the *Regional Review*.

The purpose of the *Regional Quality of Life Counts* is threefold. First, the report provides a mechanism for analysing regional trends and benchmarking Yorkshire and Humber against other regions and the England average. Second, the document aims to meet the demands for more local information in an easily digestible format. Finally, the headline indicators help raise public awareness about sustainable development and should help monitor progress against the Regional Sustainable Development Framework (RSDF).

The key findings for Yorkshire and Humber are outlined below:

Crime

More recent data from the Home Office on crime statistics in 2002/3 (SIMMONS AND DODD, 2003) reveals an increase in total recorded crime – 136 per 1,000 population compared to the national average of 113. There were more burglaries; 704 per 10,000 population compared to the national average of 439. In addition, there was more vehicle crime; 1,365 motor vehicle theft per 10,000 households compared to the national average of 1,068.

Crime is a major issue, with the region having one of the highest levels of recorded crime per 1,000 head of population in England. These Home Office crime figures suggest that this issue has not been addressed, creating clear economic implications as well as being a catalyst for environmental decline and social exclusion.

Road traffic

Infrastructure is a key element in improving access to education, jobs and recreational services. Transport, of course, is a contentious issue, with disagreements sometimes occurring between economic development and environmental conservation camps. Traffic levels on major roads increased nationally by 18 per cent between 1993 and 2002. In Yorkshire and Humber levels increased by 19 per cent, the fifth highest percentage-increase of any of the English Regions. However, the region has the fourth lowest levels of road traffic overall. In 2002, Yorkshire Forward and the Yorkshire and Humber Assembly (YHA) adopted seven strategic transport priorities for the region. These are the key themes in which regional partners believe that investment is required, and include: Trans-Pennine links; strategic North-South routes; Leeds to Sheffield Corridor; development of air transportation; ports and waterways; access to strategic economic zones; and strategic access to regional centres. These strategic priorities support the Regional Economic Strategy (RES) and are consistent with the review of Regional Transport Strategy currently being carried out by the YHA. The RES emphasizes addressing strategic transport priorities as a key priority action and Yorkshire Forward has identified transport as the main risk which could prevent achievement of the RES targets (YORKSHIRE FORWARD, 2002).

In addition, 'Multi-Modal' transport studies were completed in Hull and in South and West Yorkshire during 2002. Multi-modal studies' prime function is to address specific problems on the trunk road network, and it is therefore likely that solutions may well be road based.

Investment in the rail network demonstrates a further economic case for economic growth. For instance, the East Coast Main Line rail route contributes £100 million annually to the regional economy. These findings have been used to influence funding bodies to move forward with infrastructure improvements. This ongoing research programme will provide intelligence to support strategic transport priorities and inform the review of the Regional Transport Strategy, which is integral to Regional Planning Guidance (GOVERNMENT OFFICE FOR YORKSHIRE AND THE HUMBER, 2001).

The region needs to focus on attracting investment to address strategic transport priorities and to pursue efforts in reducing transport's contribution to Yorkshire and Humber's greenhouse gas emissions.

River water quality

River water quality supports wildlife and recreation as well as being a source of water for drinking and industry. Both chemical and biological river water quality has improved throughout England over the last twelve years. In 2002, nine tenths of total river length in Yorkshire and Humber is of good or fair chemical quality (the national average is 94 per cent).

Although this percentage ranks the region second lowest in England, Yorkshire and Humber has shown one of the greatest improvements in quality since 1990. Water quality is important both for biodiversity and tourism, underpinning many aspects of the region's economy.

Wildlife

Wildlife is valued for its own sake and because it is part of our quality of life. Birds are often used to indicate the state of wildlife because they are usually at (or near) the top of the food chain. In 2000, the population index for woodland bird species in the region had increased by 50 per cent since 1970, whilst national levels have decreased by 18 per cent over the same period.

Land use

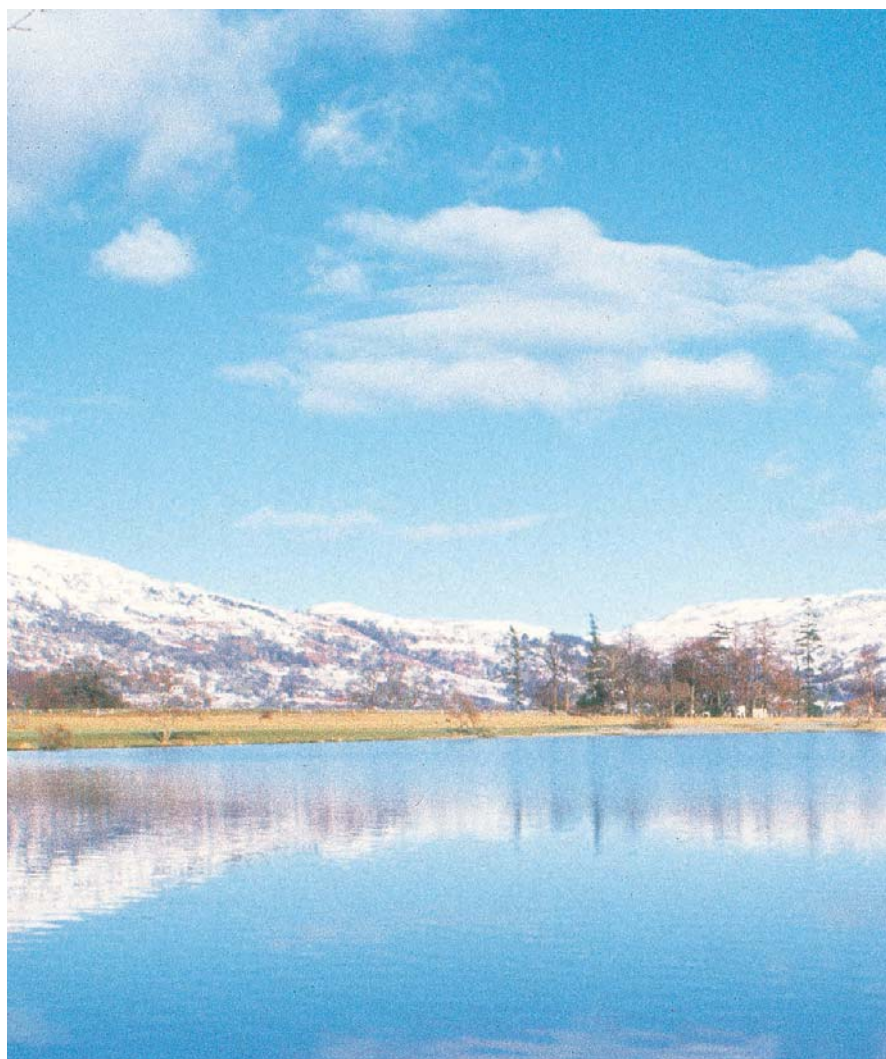
New houses which are built on previously developed land help regenerate

communities and protect green belts. The 1998–2001 regional average of 53 per cent of new homes built on previously developed land represents an increase of seven percentage points on the 1989–1993 average.

The Regional Planning Guidance target of 60 per cent is challenging and requires clear focus on the amount of such land identified as suitable for housing and on the process by which such land is deemed suitable for housing. In comparative terms only 27.8 per cent of the region's stock of identified previously developed land is deemed suitable for housing, the lowest of all the English regions (NATIONAL LAND USE DATABASE, 2001).

Regionally Yorkshire and Humber has one of the highest totals and one of the highest proportions of such land that is unallocated, with no planning allocation or permission. The announcement by the European Commission that UK grant support for decontaminated land and its remediation is state aid compliant will provide significant focus for developer activity, particularly in the Yorkshire Coalfields area. As part of the Regional Housing Strategy 2003, this clearly represents an opportunity to focus further housing development on land previously considered unsuitable to develop (REGIONAL HOUSING BOARD, 2003).

Only 27.8 per cent of the region's stock of identified previously developed land is deemed suitable for housing, the lowest of all the English regions.





Waste

Lowering waste (and increasing recycling) reduces the negative environmental impacts of waste disposal. In 2000/1 Yorkshire and Humber fared well in terms of the total household waste per person, which was better than the English average. However, the region recycled or composted the third lowest amount per person.

The region should be working towards the Waste Strategy 2000 which aims to “recover value from 45 per cent of municipal waste and to recycle 30 per cent of household waste by 2010”. This is in line with the Regional Waste Strategy (YHA, 2003) which has been set up specifically to give more priority to waste issues and to develop sustainable waste management systems for Yorkshire and Humber.

Conclusion

Clearly, *Regional Quality of Life Counts 2002* is designed to be a platform to build further analysis and to produce policy implications. The region has shown general improvements in absolute terms with increases in GDP, river water quality, wildlife and land use indicators.

Conversely, crime, road traffic and waste recycling remain specific areas in need of improvement. In relative terms, the region's performance in comparison to other English regions is also an important consideration.

Regional partners need to plan policies around these indicators as well as benchmarking Yorkshire and Humber against the other English regions, especially the three northern regions. *Regional Quality of Life Counts* provides a basis for Progress in the Region 2004 (now aligned to *Advancing Together*) as a formal centrepiece of the Regional Monitoring Framework (YHA, 2004). Both *Regional Quality of Life Counts* and *Progress in the Region* (YORKSHIRE FUTURES, 2003) emphasise the scale of the regional challenge in raising economic efficiency and attaching our people to economic opportunity in a diverse and sustainable economy.

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Regional Disparities

Twenty-Five Years of Regional Development

R. Ross MacKay

School of Business and Regional Development,
University of Wales

A New Regional Policy for the UK

John Adams, Peter Robinson and Anthony Vigor
IPPR

An Alternative Regional Strategy

Ash Amin, Doreen Massey and Nigel Thrift

Equilibrium Regional Disparities: Theory and British Evidence

Patricia Rice and Anthony J. Venables

Department of Economics, University of Southampton;
and Department of Economics, London School
of Economics

Twenty-Five Years of Regional Development

R. Ross MacKay
School of Business and Regional
Development, University of Wales

London is the political, administrative, commercial and financial capital where the different sources of power interact to promote the economic growth that the North needs, but the South can only, with difficulty, accommodate.

Much of the regional agenda is focused on reducing regional disparities. This short extract hints at some of the reasons for the persistence of these regional inequalities, and argues that they matter not just for those in the ‘poorer’ regions but also for those in the South.

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What has the south of Britain got that the north really wants? Short answer: the economic and social stimulus of a London. What has the south got that it could well be rid of? Short answer: the inefficiency of a congested central London. (*The Economist* 1962, p. 989)

Government location is a non-market influence of considerable importance. It is a source of well-rewarded employment

and acts as a magnet for other highly paid jobs. London is the political, administrative, commercial and financial capital where the different sources of power interact to promote the economic growth that the North needs, but the South can only, with difficulty, accommodate.

In 1962 *The Economist* proposed ‘a new administrative capital for Britain ... somewhere north of the Trent ... [for] Queen, parliament and civil service’ (p. 989). With this new capital city, ‘Elizabetha’, established, much more would follow. The North would have its own growth magnet whilst the South would see congestion eased. *The Economist* proposal was too radical and imaginative to be considered other than tongue in cheek, but it had serious intent. It pointed to a growing spatial imbalance which added to inflation, limited national output and reduced economic well-being.

Table 3.	Inner Region Core (IRC) and Rest of UK					
	1975			1999		
IRC % share of UK population (%)	33.4			34.9		
IRC % share of UK land (%)	16.4			16.4		
	1975			1999		
	IRC	Rest of UK	GAP ² (%)	IRC	Rest of UK	GAP (%)
Concentration index ¹						
Male jobs	1.048	0.976	107	1.089	0.952	114
GDP	1.108	0.946	117	1.212	0.886	137
Male earnings	1.111	0.944	118	1.255	0.863	145
Adults with degrees	n.a.	n.a.	n.a.	1.307	0.836	156
R&D expenditure	n.a.	n.a.	n.a.	1.528	0.716	213
High income earners	n.a.	n.a.	n.a.	1.656	0.648	256
Notes:						
1. Concentration index = $\frac{\text{share of UK jobs}}{\text{share of UK population}}$ etc						
2. IRC Index as a percentage of index for Rest of UK.						
n.a. denotes not available.						
Source: Regional Trends, Economic Trends						

Active relocation of manufacturing came to an end in the mid-1970s. Over the following 25 years regional inequalities grew and the already considerable prosperity gap between the Inner Region Core and the rest of the UK increased further. As Table 3 illustrates, by 1999 the concentration index of male jobs was 14% greater in the Inner Region Core than in the rest of the UK. The concentration index of male earnings was 45% greater. The index of research and development expenditure was 2.1 times higher, and that of high-income earners 2.6 times higher. In recent years, between 1995 and 1999, value added per head in the Inner Region Core climbed from 28% above the level of the rest of the UK to 37% above. Moreover, by 1999 the Inner Region Core, with 35% of the UK population, accounted for 46% of those with degrees (or equivalent qualifications), for 53% of the expenditure on research and development and for 58% of high-income earners.

London has become the richest area in Europe, even though GDP per head in the UK is only 1% above the EU average. Career ladders demand a location close to the national capital. Table 4 highlights the importance of London relative to the rest of the UK. For example, calculated by workplace rather than residence, value added per head in London is 47% above the UK average.

The growing disparity between the prosperous Inner Region Core and the rest of the UK is imperfectly understood. It stems from the decline of manufacturing, the growing importance of trade within the European Community, and the growth of knowledge-based services. The information revolution has reached all parts of the UK, but has been skewed towards the capital and its zone of influence. In attempting to explain such regional disparity, a consideration of the continuing interaction between government, finance and business

is important. These relationships have made the City of London increasingly influential. Moreover, the Inner Region Core dominates the distribution of both bank credit and venture capital. Also, as previously noted, London is the political capital and, as such, it is a magnet for those who must deal with central government in any of its myriad manifestations. The benefits of the proximity to government and the dispensers of government contracts have had an influence on the location of the new science-based industries. A dynamic for centralization emerges and there are few checks and balances.

Does the increasing gap between the inner region core and the rest matter?

The greater the spatial disparity, the greater the inflationary pressure at any given level of national demand. Given the way inflation is generated, a growing gap between a prosperous one-third (with supply restraints) and a less prosperous two-thirds (with spare capacity) is a problem for national output and national growth. Fear of inflation dominates macroeconomic policy. The main policy instrument, the rate of interest, affects the country uniformly, even though different regions respond very differently to demand increases. Inflation generated in tight labour markets prompts interest rate increases which limit demand and output in regions with substantial unused resources (PHILLIPS, 1958; BROWN, 1972; TAYLOR and WREN, 1997).

The problems of concentrated development are exacerbated by congestion costs. However, the higher productivity of the Inner Core Region does not necessarily result in an equally higher standard of living. Reward Surveys suggest that the income required to maintain a given standard of living is 22% above the UK average in Greater London, whereas housing costs in Greater London

The greater the spatial disparity, the greater the inflationary pressure at any given level of national demand.

Table 4. Indices of GDP per head, Inner Regional Core, 1999 (UK= 100)

	Residence based	Workplace based
London	130.3	147.0
East	116.1	103.5
South East	116.0	109.8

Source: Economic Trends



and transport costs for London commuters are 50% above the UK average. Moreover, inequalities also exist within London itself, where wealthy areas are juxtaposed to those blighted by serious poverty and deprivation. The high cost of living is a problem for those on or close to the minimum wage.

In the same way as not all of high value added per head is reflected in a comfortable lifestyle, higher expenditure on public services does not necessarily produce higher quality. Between 1975 and 1999, the population in the Inner Region Core increased by over 2 million (11%) and the number of licensed cars increased by 60%. Such population growth understates the pressure on space. Household size falls, factories, offices, shops and warehouses all require more space per person employed. Moreover, pressure on road and rail produces delays, which add to business costs and to the cost of living. In significant and spreading parts of the Inner Region Core, all forms of development (housing, industrial, office, warehouse, road, rail) are more controversial and substantially more expensive than in the rest of the country. A better spatial balance, therefore, may be important in preserving a way of life that is prized by those who live in the Inner Region Core. The spread of wealth and opportunity to other parts of the UK may not only reduce environmental damage in the prosperous South but may also add to the well-being of those who live and work in London, South East and East.

The income required to maintain a given standard of living is 22% above the UK average in Greater London.

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A New Regional Policy for the UK

John Adams, Peter Robinson and Anthony Vigor

IPPR

Evidence-based policy is currently fashionable, but it can often be hard for those engaged in the day-to-day development and implementation of policy to consider not just whether the policies are being drawn up intelligently but to ask the more fundamental questions about whether the approach is sensible. This extract, and the one following it, are taken from high-profile publications from leading think-tanks, each trying to generate new ideas and approaches to regional policy.

This extract from *A New Regional Policy for the UK* is reproduced with permission from IPPR – the Institute for Public Policy Research.

Further information is available from www.ippr.org/north.

The 'North' is poorer than the 'South'. Although some dispute the existence of a 'North-South' gap in prosperity, it is clear that within the UK there is a 'winners circle' in the 'Greater South East' of the UK (consisting of London, the East of England and South East regions and part of the South West). The rest of the country has lower levels of prosperity, and three regions lag significantly: Northern Ireland, Wales and the North East of England.

There is a growing consensus that these regional disparities need to be tackled and a variety of reasons have forced this issue up the political agenda:

- the gap between the 'North' and the 'South' has been growing since the economic recovery began in 1992-93;
- the enlargement of the EU will mean that after 2006 the poorer UK regions will cease to receive the same degree of EU funding on which they currently rely so heavily;
- the sustained regional voice provided by the Deputy Prime Minister has been supplemented by the rise of HM Treasury as champions of Labour's 'New Regional Policy'.

In the Spending Review of 2002, the Chancellor announced a new Public Spending Agreement (PSA) target to "over the long term reduce the persistent gap in growth rates between the regions". This is a highly significant shift in Government policy and is to be welcomed. However, it only applies to England when it should apply to the whole of the UK. Furthermore, it is a target to reduce the gap in growth rates – not to close absolute disparities. The Government might meet this target while at the same time absolute disparities continue to grow.

The scale of the challenge

The headline measure of output or Gross Value Added (GVA) per head is not the only useful indicator for analysing regional economic disparities.

- 1 GVA is a function of differences in productivity *and* employment, with the relative importance of each varying from region to region. In 'lagging' regions the numbers claiming sickness and disability benefits dwarf those claiming unemployment benefit.
- 2 There are clearly differences in prosperity *within* as well as between regions. However, GVA is an unreliable measure at this smaller spatial scale. A more obvious measure of economic prosperity at this scale would be levels of employment.
- 3 GVA is a measure of *output*, not a measure of *income* available to households. Transfer payments through the tax and benefit system reduce but do not eliminate regional economic disparities.

High costs in the 'South' should generate incentives for firms and people to locate to disadvantaged regions, but public policy is currently blunting incentives to relocate by offsetting the problems faced by successful congested regions.

- 4 The use of GVA fails to highlight London's high levels of child poverty, but tax and benefit policies are more important than regional policy instruments in tackling this problem.
- 5 Using only GVA does nothing to indicate an individual's 'happiness', which depends on such factors as income, employment and health. Significant regional disparities exist in each of these areas so claims that the 'North' is poorer but happier than the 'South' are profoundly mistaken.
- 6 Using only GVA also fails to take account of the condition of the natural environment. The issues are different in the 'North' and 'South', but the need to boost growth rates should not privilege economic over environmental concerns.



The market is not acting effectively to reduce regional economic disparities. High costs in the 'South' should generate incentives for firms and people to locate to disadvantaged regions, but public policy is currently blunting incentives to relocate by offsetting the problems faced by successful congested regions.

It is as unhelpful to argue that the 'South should be left to stew' as it is to argue that London 'drives' the UK economy. The role of London in the UK economy needs to be carefully addressed: most employment in London is not directly associated with

international markets and there is a relationship of interdependence with the rest of the UK. Worrying about whether London drives the UK economy or vice-versa is pointless. The housing and transport needs of the 'South' should be addressed, but these should be paid for within the region.

Employment and regional policy

Levels of employment vary significantly within and between regions. In the 'Greater South East' there is a broad swath of areas with close to full employment. Many areas in the 'North' have much lower employment rates. Major cities, including London, also have low employment.

The most important dispute in regional economic policy is to what extent this reflects 'demand-side' or 'supply-side' problems. That is, whether there are differences in employment opportunities or whether the unemployed are unable to get the jobs which do exist. The Government would emphasise the latter, and would claim that areas of high unemployment lie within easy travelling distance of areas where vacancies are plentiful.

However, there are areas with low levels of employment not within easy travelling distance of anywhere with a tight labour market. For example, Hartlepool borders Middlesbrough and Stockton and Sunderland and Durham and similar observations can be made of Northern Ireland, West Wales and the Valleys and industrial West Cumbria.

On the other hand, the Treasury argument does carry some force in large metropolitan areas like London or Glasgow. Concentrations of non-employment in Hackney are not due to a lack of jobs locally. This misunderstands the way that housing and labour markets work in London. Individuals who face barriers to securing employment are concentrated in certain areas where housing is cheaper or socially provided. They need support to help them overcome these barriers.

Worklessness in Hackney is different to worklessness in Hartlepool.

Worklessness in Hackney is different to worklessness in Hartlepool. There is no Hackney labour market, but there is a distinct Hartlepool labour market. The residents of Hackney need a robust London labour market and supply-side measures to help them access jobs across the whole of the metropolitan labour market. The residents of Hartlepool require similar supply-side measures, but combined with policy instruments designed to create more jobs within easy travelling distance.

Full employment requires a strong national economy, a strong regional policy, supply-side measures and measures to reduce residential segregation and the links between segregation and disadvantage.

For those regions with a concentration of travel-to-work areas (TTWAs) with low employment rates, the demand for labour needs to be stimulated. Assisted Areas should be defined on TTWAs (not wards) - nearby areas of potential growth should not be cut off from support. More emphasis needs to be placed on allocating RSA grants to service sector companies, to redress the bias towards manufacturing. There should be less support for prestige inward investment projects and more for the creation and expansion of indigenous enterprises.

Eastward expansion of the EU after 2006 is likely to cut the Structural Funds available to 'lagging regions'. The UK Government has advocated a 'renationalisation' of regional policy and has guaranteed that domestic regional funding would be increased (although it is unclear to what extent). The European Commission should support this approach. The EU target of 70 per cent of the adult workforce in employment by 2010 should provide an important 'floor target' for domestic regional policy. UK Government resources could then be targeted on those TTWAs with employment rates at or below 70 per cent.

The regional skills, education and training agenda

There is a fairly clear 'North-South' gap across the English regions in terms of qualifications - London and the South East have significantly higher proportions of the working age population with higher



education qualifications and lower proportions of the population with no qualifications.

This gap is partly a consequence of differences in educational attainment at 16 and staying on rates post-16, but are also a consequence of out-migration of the better qualified to more prosperous regions, where a higher proportion of better jobs is on offer.

Recent moves to regionalise the local Learning and Skills budgets are a red herring - it is impossible for the public sector to match the skills of the workforce to the demands of employers. Individuals should make their own decisions over further education and training. RDAs should focus on increasing the demand for skills from employers, in itself a very difficult agenda.

One recent issue flagged up by the Chancellor is whether the UK has sufficient regional and local variation in pay. Although national pay setting is the norm in both the private and the public sector, in practice there is much local discretion to reflect local circumstances. In general the labour market does not seem to be failing in a profound way to allocate labour efficiently across the regions, although there are specific problems, including parts of the public sector. Successful congested regions should bear the costs of higher pay for public sector workers.

Science, innovation and the regions

Innovation policy has been driven by vague concepts, such as the creation of a 'knowledge-based economy' and by a small number of individuals who have become skilled at promoting their ideas - Michael Porter and 'cluster theory'; Richard Florida and the 'creative class'

It is impossible for the public sector to match the skills of the workforce to the demands of employers.

and the Boho index; the Work Foundation and 'Ideopolis'.

One of the reasons for this is a paucity of good evidence from rigorous evaluation. A large element of innovation policy should be focused on dissemination and on what must seem rather mundane initiatives, such as human resource management or modest improvements in management practice. At present we do not even have a methodology by which to measure such things.



The most common proxy for innovation is spending on Research and Development (R&D) and there are clear regional differences in business, HE and directly government funded R&D. A different picture emerges from the UK Innovation Survey, which concluded that there were few substantial differences between regions. This survey is still in its infancy but its results should not be dismissed as too counter-intuitive. It may be that firms in the 'North' are not less innovative but that there are less of them.

While it is important to remember that science policy is not innovation policy, there are very clear regional divides in science spending, and although the science base in all regions needs to be strengthened a key question is whether the science base should be "regionalised" – with spending more evenly spread across the UK? This is not an easy issue and difficult trade-offs need to be managed – funding science in the 'Greater South East' might exacerbate regional economic differentials; regionalising the science base could harm the standing of

UK science. There will not always be a 'win-win' situation. A centre-left government should prioritise regional policy and full-employment.

Some science institutions should be relocated from the 'Greater South East' to 'lagging' regions. This would help create jobs, and it may lead to a culture change that would address the South East-centric bias in the distribution of science spending. Suggested institutions include the seven research councils and the Higher Education Funding Council for England. New investment in science could also be 'top-sliced' to create a regional science fund.

Enterprise Policy

In the UK, debates about enterprise are too focused on small and medium sized enterprises (SMEs). In truth, enterprise policy is as relevant to large firms as to small firms. While SMEs create a large number of new jobs, they are also subject to large-scale job losses. Notably, a higher proportion of the workforce is employed in SMEs in 'lagging' Northern Ireland and Wales than in 'prosperous' London. There seems little correlation between employment by firm size and regional prosperity.

Nearly £8 billion is spent on public sector support for SMEs: £3 billion by DEFRA on agricultural support, £2.6 billion by the Treasury on revenue foregone through tax measures, and £2.2 billion on other initiatives. This £2.2 billion is spent on a complicated and inefficient array of initiatives, particularly external business advice. A pilot scheme is currently in operation where four RDAs are leading the co-ordination and management of Business Links. It may be too early to judge their success, but the case for RDAs assuming responsibility is strong.

A great deal of research has tried to establish the characteristics of the more successful entrepreneur. One conclusion is that age is an important determinant, and the easiest way to promote enterprise is to focus on 30- or 40-something individuals who are well educated and who have experience of working in a particular sector. Social enterprise has moved up the political and policy agenda in recent years, but it is

not clear how useful it is in improving economic activity or creating jobs. Enterprise Areas are also a recent creation. Their boundaries are drawn at the ward level (postcode level in Scotland). However, these deprived areas are unlikely to have a high proportion of the managers and professionals likely to make successful entrepreneurs. A focus on broader TTWAs would be more likely to ensure that Enterprise Areas cover potential entrepreneurs. Those in 'hard-to-reach' communities may start a business but, crucially, they would also be within travelling distance should other entrepreneurs create job opportunities.

Public spending and investment

Despite the significant variations in public expenditure across the nations and regions of the UK, there is little political likelihood of reforming the so-called Barnett formula. Nevertheless, this debate will not go away and there are many other public expenditure issues which are relevant to current debates.

The basic principle of fiscal equalisation must be that any particular area should be able to offer its residents broadly the same level of public services as another area – regardless of economic prosperity or the tax base in that area. From each region according to their means, to each according to their 'needs'.

Defining 'needs' is an inherently difficult task but any fair formula would take into account:

- the total population
- well recognised needs such as child poverty or ill-health
- other needs such as the problems posed by high levels of mobility and transience
- the higher costs of delivering public services in rural areas
- more controversially, the higher costs in delivering public services in congested regions

Some elements of higher spending will, however, reflect conscious policy choices and these costs should be borne locally, for example in relation to free personal care in Scotland.

It is important to recognise that central government can ensure fiscal equalisation without controlling a majority of public expenditure. It can balance 'needs' across different territories with only 25-30 per cent of total funding, allowing more revenue to be raised locally.

Policy is nudging in this direction, and there do seem to be moves to get some of the problems of congestion paid for locally. Congestion charging in London is the highest profile initiative, and it has been suggested that some of the costs of Crossrail could be funded regionally. Furthermore, it seems as if ODPM wishes to try to capture more of the increased value of development in housing for the public purse. Such moves are welcome and should be further developed.

Sir Michael Lyons is currently undertaking a review of public sector relocation for HM Treasury. This has to be done in a manner compatible with the needs of the 'lagging' regions. As they have a shortage of high-quality graduate jobs, back-room posts cannot be all that is relocated. If entire departments or agencies are moved senior posts would have to be relocated. 'Lagging' regions also need higher levels of R&D, so institutions which could be relocated include the Higher Education Funding Council and the seven Research Councils. This would be an important job creation measure, but it would also help change the cultural attitudes that disproportionately fund the 'Greater South East'.

Governance Issues

One of the distinguishing features of the current renaissance in regional economic policy has been its emphasis on increased capacity at the regional level: bottom-up not top-down. This is clearly correct, as regional policy cannot be run from the centre. However, it should be noted that regional institutions are necessary but not sufficient for reducing economic disparities.

A bottom-up regional economic policy does not mean that central government does not retain a responsibility for all parts of the UK - it cannot merely 'pass the buck'. The commitment by central government to a target of reducing regional economic disparities is a welcome recognition of this.

Regional institutions are necessary but not sufficient for reducing economic disparities.

Ten Point Plan for Regional Economic Policy

- 1 The 2004 Spending Review should set out an unambiguous target to narrow disparities in output per head across the UK nations and regions. The Joint Ministerial Committee on the Economy taking place later in 2003 should be used to agree a target between the Government and devolved administrations.
- 2 Employment should be given equal weight with productivity as the focus for regional economic policy. Policies are required to increase the demand for labour in the Assisted Areas, which should be re-defined to cover groups of Travel-To-Work Areas in 'lagging' regions with employment rates at or below 70 per cent so that regional policy instruments can be concentrated.
- 3 The EU should back the UK position of 'renationalising' regional policy. HM Treasury needs to commit significant additional resources to compensate 'lagging' regions for lower levels of EU spending. Regional and local institutions must decide how that funding is allocated across different areas of spending.
- 4 More good quality jobs need to be created in 'lagging' regions to retain graduates. Increasing the proportion of young people and adults with adequate basic skills and level 2 qualifications are the correct priorities for promoting employment. A period of stability in the administration of learning and skills policy is required.
- 5 The Government should 'regionalise the science base' by relocating key institutions and by 'top-slicing' new spending on science for 'lagging' regions. The current concentration of government R&D spending and science institutions in the 'Greater South East' is inequitable.
- 6 The Government needs to rationalise services for small and medium sized enterprises as the number of initiatives and bodies in this area are impossibly complex. In particular, if the current pilots are successful the case for RDAs assuming responsibility for Business Links will be very strong.
- 7 All Whitehall departments need to 'mainstream' the regional dimension into their spending decisions. Decisions in areas such as housing, transport and science policy need to reduce regional disparities not reinforce them.
- 8 Prosperous regions and localities should bear more of the costs of extra spending required to deal with the problems of success. Congestion charging and capturing increases in land values can only be the start of something bigger in terms of fiscal reform.
- 9 Several Departments and Agencies should be relocated from the 'South' to the 'North' – such as the ODPM, the Higher Education Funding Council for England and the seven Research Councils. The Lyons Review must relocate senior staff as well as back-room staff.
- 10 A central research unit for the RDAs should be created to help promote evidence-based policy-making. This should be located in one of the 'lagging' regions.

Policies must be designed and administered at the best spatial scale if we are to have the effective delivery of public policy. Otherwise, services will be poorly delivered and taxpayers money wasted – square pegs do not fit round holes. 'Joined-up government' has received much attention in recent years. However, the spatial debate has received much less attention, and needs to precede debates over joined-up governance.

For example, it is wrong to try to create jobs in deprived localities as this misunderstands the way in which the labour market works. It is more effective to create jobs in areas attractive to employers but within travelling distance of deprived communities. Good quality transport links would ensure job opportunities are available to individuals in areas with high levels of economic inactivity.

Whitehall has a reputation for being regionally insensitive. Its role of balancing the different and often competing interests of the different parts of the UK is difficult. On balance, it seems as if Whitehall does not sufficiently prioritise the needs of lagging regions – although we do recognise the needs of London particularly in the area of child poverty. Whitehall must 'mainstream' the regional agenda into their spending decisions so that policies in areas such as housing, transport and science policy reduce regional disparities, not reinforce them. The 2004 Spending Review will be the key test as to whether it is moving in the right direction.

An Alternative Regional Strategy

Ash Amin, Doreen Massey and Nigel Thrift

Regions, this extract suggests, cannot bring about regional inequality without significant national level action. The key, it is claimed, is a 'national commitment to decentre the economy'. As well as re-examining some current regional policy – such as whether knowledge transfer needs to happen locally or how foreign investment might be better harnessed – this manifesto argues that national policy needs to be made far more sensitive to the regional agenda.

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A different regional policy framework is needed, one that sees regions as part of a wider set of economic connections and institutional obligations. This has two important policy consequences:

- One is that local effort has to work through these broader connections and obligations.
- The other is that there can be no simple division of responsibilities between national and regional institutions.

Regional action

Turning first to regional-level action, this should not focus solely on the economics of endogenous growth geared solely towards boosting competitiveness, but also work with an economics of circulation and global linkage, that, in addition, does not reduce the problem of capacity-building to competitiveness goals.

Three brief examples suffice to illustrate our argument.

- 1 First, in the area of **innovation and learning**, the current policy obsession with local knowledge transfer (e.g. between local businesses and local universities)

needs to be reexamined. A perspective on knowledge as a mobile and relationally constituted asset of varied spatial reach (from the workplace to international IT and business networks), points in the direction of focusing on connectivity as a means of building the knowledge base and deciding on what works for local advantage, regardless of how "local" the knowledge is.

Such connectivity could include international exchanges of creative people and ideas and school visits abroad, the offer of higher education training opportunities out of the region, start-up opportunities for returning graduates, and in general a cultural fabric that sustains and nourishes intellectual activity and social creativity. What matters is variety and critical mass – attending to the regional knowledge base in a broad and non-utilitarian way, geared towards building expertise and excellence in schools, colleges, universities, research laboratories, workplaces, the media, and the public culture in general. This is an act of building knowledge reserves without guarantees and without local forcings, recognising that the link between knowledge formation and economic returns is non-linear and unpredictable, but that distributed plenitude improves the selection environment for innovation.

- 2 Secondly, in the area of **direct support for local businesses**, an attentiveness to the economics of circulation might result in support for a variety of schemes that help businesses to boost national and international competitiveness, without assuming local externalities.

Whitehall must 'mainstream' the regional agenda into their spending decisions so that policies in areas such as housing, transport and science policy reduce regional disparities, not reinforce them.



These could range from facilitating access to rapid distribution and logistics networks, international trade fairs and market intelligence on export opportunities and suppliers, through to making available long-term and developmental funding (to compensate for a profit-based and audit-based funding culture) and offering diverse opportunities to firms to link into wider knowledge and learning environments (e.g. through regional applied research laboratories and databanks). Unlike the past, when regional policy did very little to extract regional benefits from inward investors, these incentives could be traded for certain guarantees on business conduct, in order to maximise local value-added. Instead of forcing local linkages that jar with the sourcing and support patterns of incoming firms, the regional agencies might expect firms (including inward investors) to contribute to, say, a new business initiatives fund, engage in community programmes, or exercise corporate social responsibility through profit-sharing and employee-involvement schemes. In this way, corporate profits can be used for region building without assuming that corporate profitability depends on building intra-regional alliances.

3 Third, the idea of regions as sites of circulation might at long last redirect attention to the reality that the bulk of regional economic transactions are related to servicing local demand – from meeting consumption and welfare needs to keeping people and objects on the move. This significantly raises the importance of **demand-led regional growth and regeneration** considerations, over the contemporary focus on growth through supply-driven boosts to competitiveness.

It forces attention on how local patterns of servicing demand – the unglamorous everyday that underpins vast circulations of money, profit and investment in the local economy – could be harnessed for local benefit. It highlights the need to look at ways in which global supply chains can be harnessed for local advantage, say through local sourcing (without assuming that local sourcing naturally follows from clustering), tax revenue or employment standards for retailers, as it does the need to focus on circuits of provision that could draw on local resources, for example, in the welfare economy, the social economy, farmers markets, local exchange schemes, second-hand markets, social needs-led regeneration.

A national regional strategy

Turning to national-level action, it is clear that no re-imagination of regional economic strategy will succeed without **sustained action from the centre to combat regional inequality and the London-bias of the national policy framework**.

The heterarchic economy has its own political economy that rewards the actors who control the networked economy and those sites which originate or transmit the global flows, knowledge, and creativity. Nothing has changed to suggest that uneven development is no longer a feature of the economic system; inequalities in and between relational networks continue to map onto existing regional patterns of inequality.

This means that a government committed to a one-nation economics has the obligation to secure a national policy frame that works for the regions.

And importantly, the case for a new politics of regional attention must not be seen – as both the Tories and New Labour have tended to – as an act of “redistribution” from a centre that is held rightfully to own the resource or as a concession from a “governing” centre to a “suppliant” or “deserving” periphery that must show gratitude and become less slothful in the process. Instead, it must be seen as a way of mobilising the nation’s full spectrum of resources, developing a varied and distributed national economic base, reducing the cost to the whole nation of regional inequality and overheating in London, and respecting the right of the geographical majority to earn a living and lead a decent life in a place of their choice.

The obligation “to the regions” is a matter of the equal worth of all in this nation regardless of where they find themselves, not a matter of duty to citizens of a North routinely typecast as a victim or deficient space. What this requires is a serious commitment to dispersing national economic initiative and institutional capacity.

What is at minimum needed is a genuine, thorough, regional “audit” and subsequent adjustment where necessary, of all macroeconomic, “national”, and nominally a-spatial policies. The persistent unacknowledged regional bias to the South East must be addressed.

Further, the commonplace assumption that any obstacle to further expansion in the South will encourage investment blight as firms react against freedom of locational choice, must be resisted. There is no reason why a combination of carefully researched controls on further expansion in the hotspots (e.g. on new industrial build), the guarantee of an efficient national transport and communications network, and indirect incentives to nudge firms to locate in the North, will not work. Indeed, given the rising costs of transport congestion, environmental pollution, labour shortages, wage inflation, and prohibitive house prices in the South, the promise of the North could be welcomed by industry, and indeed may become necessary for further expansion of the national economy.



Big national infrastructure projects, such as new airports, rail terminals and telecommunications hubs, properly linked to an advanced and integrated national transport and communications infrastructure, can be scattered all around this small island without significant “distance decay” effects from the country’s most populated areas.

For example, in the context of the current heated debate on expanding Heathrow in preference for other hubs in the South such as Stanstead or Gatwick, we would argue that it makes sense to make airports in the North the new international transport gateways instead of forcing yet more unsustainable expansion of the South East hubs. Look at the possibilities that have been opened up in France by the TGV and by state-sponsored advanced telecommunications systems, which have brought hubs of the knowledge economy located in the South (e.g. Sofia Antipolis) and in the East (e.g. Grenoble) right into the centre of the nation’s science and technology infrastructure.

And we mean national connectivity, not simply connectivity with London (or Paris, in the case of France), because London should not be returned as the centre-point, sucking in benefits from a renewed national infrastructure. The transport and communications corridors between East and West, especially across the Pennines, together with those within the regions are in a parlous state and need upgrading (as recognised by EU regional funding which has become a major source of infrastructural improvement in the Less-Favoured Regions). This will make for a distributed economy, as mobility and contact within and between regions, without the pressure to go through, or to, London, becomes possible.

The case for a new politics of regional attention must not be seen – as both the Tories and New Labour have tended to – as an act of “redistribution” from a centre that is held rightfully to own the resource or as a concession from a “governing” centre to a “suppliant” or “deserving” periphery.



The naturalised assumption that London's growth is good for the nation must be displaced by the idea that the development of the regions is better for the nation and better for London. Nothing short of this will tackle the regional question.

And, yes, this does mean "special measures" for the regions, but these need not be that far from what is already in place (although one exception, given earlier arguments, is that controls on how freely financial incentives are offered should be tightened).

- One possibility is an extension to the whole of the North of the **Community Investment Tax**, which offers fiscal incentives for inner city trade, or of **neighbourhood regeneration schemes** which include incentives such as access to better finance for firms located in deprived neighbourhoods.
- Another possibility is to reduce **sales taxes** for firms based in the North, especially struggling smaller firms and manufacturing firms which remain a staple source of employment but which have been very badly affected by high interest rates.

Over the years, the spatial remit of urban and regional policy has narrowed more and more, towards small and ultimately

stigmatised deprived communities. There should be a "national" approach to the regional economy. One serious danger of the current combination of devolution with an endogenous growth theory approach to uneven development is that regions will end up both competing with and duplicating each other. A science park, or some such, in every part of the country. The result could be that London and the South East "win" even more conclusively than they do now. Rather, what might be better for all regions is a national-level strategy for the economy, negotiated perhaps through a Council of the Regions, in which major investment decisions with critical mass could underpin significant sectoral initiatives. Thus, in a nice reversal of Daresbury, the North West might become the focus of major national scientific investment; Leeds might be favoured for finance; and so on. It is only with initiatives of this weight and significance that the current geographical imbalance can be countered. Whatever the particular solution chosen, it is clear that without serious and sustained government action to disperse national industrial effort, a revitalisation of the private sector in the North will remain all the more difficult.

Beyond regional incentives, an economics of dispersal aimed at serving the national interest should include **government and the public sector**. This makes political sense, as we argue in the next section, but it also makes economic sense as an arm of a renewed regional policy.

Unlike previous attempts, such relocation should do more than transfer only back-office jobs or non-strategic functions in an otherwise London-centred bureaucracy. The local effects of such decentralisation were limited not only because only lower grade activities tended to be transferred while control and power remained in London, but also because the rationale remained that of giving "manageable" chunks of a national division of labour to the regions, instead of the entire national remit and responsibility. Now, the logic should be that of relocating entire ministries to the North, as well as the civil service, the judiciary, national bodies such as the Arts Council, and the Learned Academies and the Research Councils.

The North West might become the focus of major national scientific investment; Leeds might be favoured for finance.

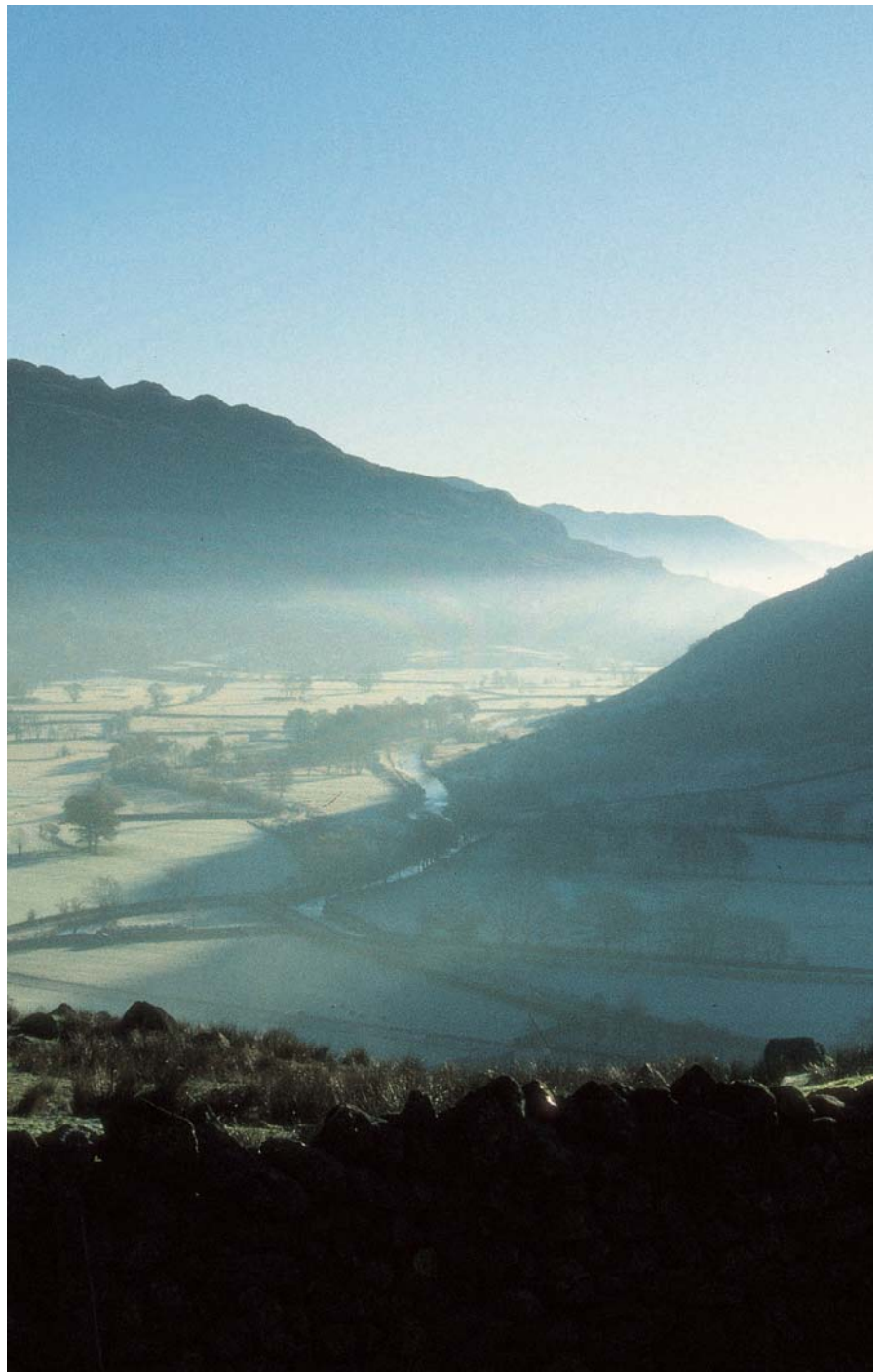
The geography of research funding in England is highly skewed, partly in consequence of the London-centrism of the relevant public bodies. The main grant awarding institutions, including the Research Councils, Office of Science and Technology, and the Higher Education Funding Council of England, are based in the South, and the distribution of expenditure to Northern Universities is disproportionately small. And this situation is currently being made worse by the New Labour strategy of extreme concentration of research funding. A more dispersed distribution would considerably strengthen the hand of individual regions in meeting the challenge of building a critical mass of knowledge resources along the lines discussed above.

The use of regional policy to disperse state and public institutions can achieve two significant economic impacts.

First, it would give the regions the cachet, institutional resources, the fixed and recurrent investment, and the full range of skills, competences, and knowledge and learning capabilities that goes with the stewardship of a national resource. The regions would secure not only security of employment and income in particular areas of national significance, but also access to the range of resources, capabilities and knowledge in related chains of activity.

Second, it would provide as strong a signal as any that the national economy can work as the amalgam of many sites of specialisation, with “even” the regions of the North capable of carrying a distinctive role in the national and international division of labour.

To summarise the foregoing section: a reconsideration of the geography of the national economy signals multiple geographies of organisation and flow that transcend and disrupt regional territorial boundaries. Current regional policy thought and practice seeks to perfect the economics of sequestered growth, and because of this it will fail to reduce regional inequality. Our alternative rejects the assumption that regional failure is a regional problem and recommends a less sequestered economic regionalism and a strengthened national commitment to decentre the economy.



Equilibrium Regional Disparities: Theory and British Evidence

Patricia Rice and Anthony J. Venables

Department of Economics, University of Southampton; and Department of Economics, London School of Economics

Regional disparities may be part of the equilibrium of the economy, an equilibrium which possibly includes free mobility of labour and which could even equalize utility across regions.

What if the regional disparities observed in the United Kingdom were the result of a well-functioning market economy, and carried little or no overall welfare cost? What if tackling regional inequalities wouldn't actually increase average welfare in the UK? This extract uses economic models to shed light on these questions, and differentiate between different ways in which regional disparities can come about.

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Persistent regional disparities are a feature of some, if not all, large countries. While these have been the subject of much research, one frequently encounters confusion about both their origins and their implications. What sorts of disparities can be sustained in generally well-functioning market economies? Why are they not eliminated by mobility or arbitrage of various sorts? What, if any, is the welfare cost of disparities?

Much of the difficulty in investigating these issues arises from the fact that we observe spatial variations in average incomes, skill levels, industrial structure and house prices, but these variations are all endogenous outcomes of an equilibrium in which there are many opportunities for regional trade and factor mobility. What underlying (exogenous) differences between regions create these disparities? What can the researcher infer about exogenous differences between regions, or about the existence of barriers to equalization, from observations on the endogenous outcomes? It is possible that a number of different underlying causes of regional disparities lead to outcomes that are observationally equivalent and yet it matters greatly (to the policy maker, for example) that the underlying cause of the disparities is identified.

Regional disparities may be part of the equilibrium of the economy, an equilibrium which possibly includes free mobility of labour and which could even equalize utility across regions. Nevertheless, the disparities must be due to some underlying difference between regions, and it is important to understand what these differences are and to investigate whether they support a case for policy.

A Model of Regional Disparity

What underlying differences must there be between regions to generate the outcomes described above? To address this we develop a simple general equilibrium model and show how exogenous differences translate into equilibrium outcomes. Ingredients of the model are all standard, and our goal is simply to assemble them into the logical framework required for analysing and empirically investigating regional disparities.

The first ingredient of such a model is a specification of the locations at which economic activity can occur, and we focus entirely on cities. The number of cities is exogenously given (five in the example we study), but the size and structure of the cities is endogenous. As is standard, we assume that economic activity in each city takes place in a central business district, to which workers have to commute (ALONSO, 1964). The cost of commuting is borne directly in utility units; individuals suffer from travelling, and suffering is exponential in distance travelled. Commuting costs determine the rent gradient and also create diminishing returns to city size. Thus, a city with some advantage will typically be larger than others, this raising land rents and total commuting costs, and thereby choking off expansion of the city in response to its advantage.

There are two types of individuals in the economy – skilled and unskilled. The total number of each is fixed, and endowments are chosen such that (in a base equilibrium) skilled workers have twice the wage of unskilled workers. Rents are distributed to workers in a lump sum manner, and it is convenient to suppose that each individual's share of rents is proportional to her wage. There are no barriers of any sort to workers' mobility either between sectors or cities, so equilibrium utility levels are the same in all locations.

Individuals divide expenditure between four categories of goods and services with, in our example, expenditure shares that are fixed and equal. One item of expenditure is housing, and preferences imply an income elasticity of demand of unity and price elasticity of minus unity. Thus, high income individuals spend more on housing, and individuals in large cities who face high rent consume less housing. Remaining expenditure is divided between three types of goods, each with a different degree of spatial mobility. The first good is freely tradable on international and national markets and has price unity in all locations; it can be viewed as a composite of all the internationally tradable goods in the economy. The second category of goods can be traded between cities, possibly subject to transport costs, but cannot be traded internationally. Examples might be financial and other services, some retailing and construction activities, and perishable commodities. We shall call these goods 'nationally tradable'. The final category is a non-traded good that is tradable only within each city; these are non-transportable services such as restaurant meals and haircuts.

Given these ingredients, the equilibrium of this model has workers located in each city, some engaged in non-tradable production, and others divided between a mixture of internationally and nationally-traded good production. How can regional disparities arise, and how do they affect the average incomes, skill levels, industrial structure and house prices of different cities?

Skill Composition

Suppose first that there are no transport costs in the nationally-traded goods and no regional productivity differences of any kind. In this case there are no underlying differences between regions, and the model contains no geographical forces to induce clustering of activity in a subset of locations. Is it then the case that there are no regional disparities and all cities look the same?

The answer is, not necessarily. At equilibrium, prices (of goods, factors of production and housing plus commuting



costs) are the same in all locations, but the skill mix of the labour force in each city is – within bounds – indeterminate. This is a corollary of the factor price equalization (FPE) theorem of trade theory. Two cities with different amounts of skilled relative to unskilled labour produce different quantities of the two traded goods (internationally and nationally-traded). However, they have the same factor prices, providing the ratio of skilled to unskilled labour in each city, after netting out labour usage in the non-tradable sector, lies between the factor intensities of the two tradable activities. Differences in factor endowments are reflected entirely in differences in the composition of production rather than the techniques used in each sector.

As the city under study is given more skilled labour, so the sizes of the nationally and internationally-traded goods sectors change. The more skilled labour intensive of these sectors expands, and the right (left) hand end of the 'FPE range' coincides with zero production of the unskilled (skilled) labour intensive good. Although wages are the same in all cities (so that the internationally and nationally tradable sectors are competitive) GDP per employee differs, being higher in the more skill abundant city. Since housing has positive income elasticity of demand, this tends to raise demand for housing. However, it must be the case that house prices plus commuting costs are the same in all cities,

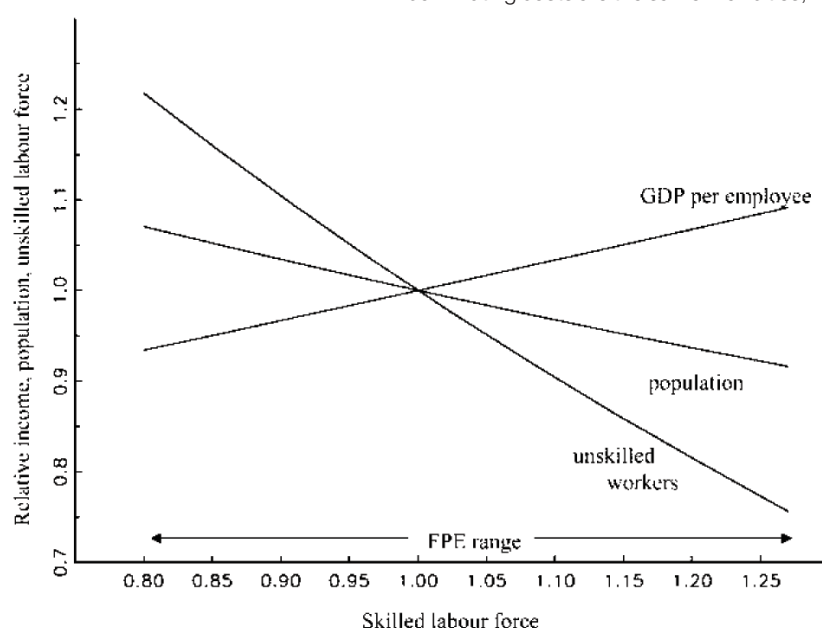


Fig 3. Skill Differences: Relative City Values

since migration equates utilities. Population in the skilled labour abundant city is therefore lower to accommodate the housing demand of high income skilled workers, and it is this that causes the decline in unskilled labour and overall population illustrated in Fig. 3.

The main point about this case is the non-uniqueness of equilibrium; any point in the FPE range indicated gives the same level of utility in all cities and is consistent with free trade in goods and mobility of labour. It is therefore possible that every city has a different skill mix (within the range), different size, and different GDP per employee.

Does this economy have a 'regional problem'? The simple answer is 'no': moving to a more equal city structure would not change any individual's real income. However, a dynamic model could give a more nuanced answer. Suppose that industrial structure is slow to adjust and each city produces skilled and unskilled workers in the same proportions. Then the equilibrium involves migration flows, as part of each new generation of workers has to relocate to match the skill mix of jobs offered by cities' industrial structures. Some cities will experience out-migration of skilled workers and in-migration of unskilled, while others have the reverse flow.

Geographical Advantage and Market Access

Regional disparities can arise because some cities have better access to markets than others. Proximity to large markets – for final or intermediate goods – makes a city an attractive location for production, attracting population inflow and bidding up prices of immobile factors. Capturing this in the model requires two ingredients. One is that the nationally-traded good is subject to transport costs. The other is that there is some underlying reason why one city has better market access than others. This could be because of geography (e.g. proximity to ports or other transport hubs) or because the city has some exogenous advantage making it larger than other cities. We follow the latter route, supposing that city 1 has a lower commuting cost per unit distance than others (due, for example, to being historically endowed with an underground railway system). This has the direct effect of making the city larger, and this becomes amplified as the good market access of the large city attracts firms and workers.

The low commuting cost gives city 1 a relatively large population, and hence a large market. Because of its good market access, city 1 is a profitable location in which to produce the nationally-traded good, and its production structure is skewed towards this good, with several consequences. First, since the nationally-traded sector is assumed to be skilled labour intensive, GDP per capita in city 1 is higher than elsewhere. Second, the nationally-traded sector crowds out the internationally-traded

Does this economy have a 'regional problem'? The simple answer is 'no'.

goods sector, by bidding up wages in city 1 (Fig. 4b). And third, the price index of nationally traded goods is lower in city 1 than elsewhere. The wage and price index effects attract further population until offset by higher house prices, as illustrated in Fig. 4a.

Increasing transport costs on nationally-traded goods increases the market access advantage of firms in city 1, and amplifies the disparities just described. This continues until some point at which transport costs are so high that production disperses, as each city has to supply its own local demand. Wage inequalities are then eliminated, and city 1 produces internationally-traded as well as nationally-traded goods, this accounting for the kinks in the curves.

Table 3 summarizes this case, and indicates a positive correlation between all variables, with a question mark over wage rates, these depending, as we have seen, on the level of transport costs. These correlations are consistent with those observed in the UK. However, as in the previous section, this economy does not have an obvious regional problem. The only barriers to mobility are transport costs on goods – a real resource cost not a distortionary wedge – and real incomes are equalized.

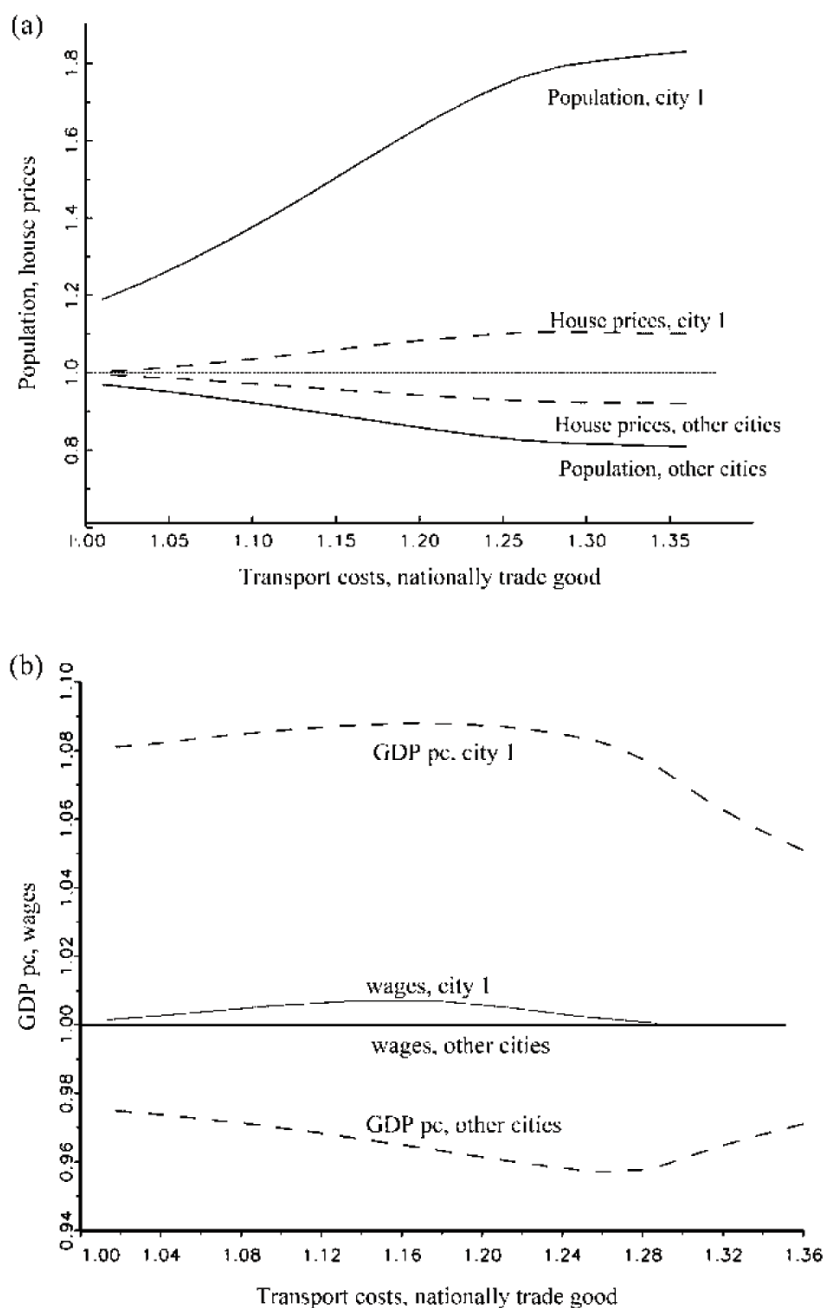


Fig 4. Transport Costs and market Access

	GDP per employee	Skills	Wage rates	Density	House prices
GDP per employee	1	+	+?	+	+
Skills		1	+?	+	+
Wage rates			1	+?	+?
Density				1	+
House prices					1

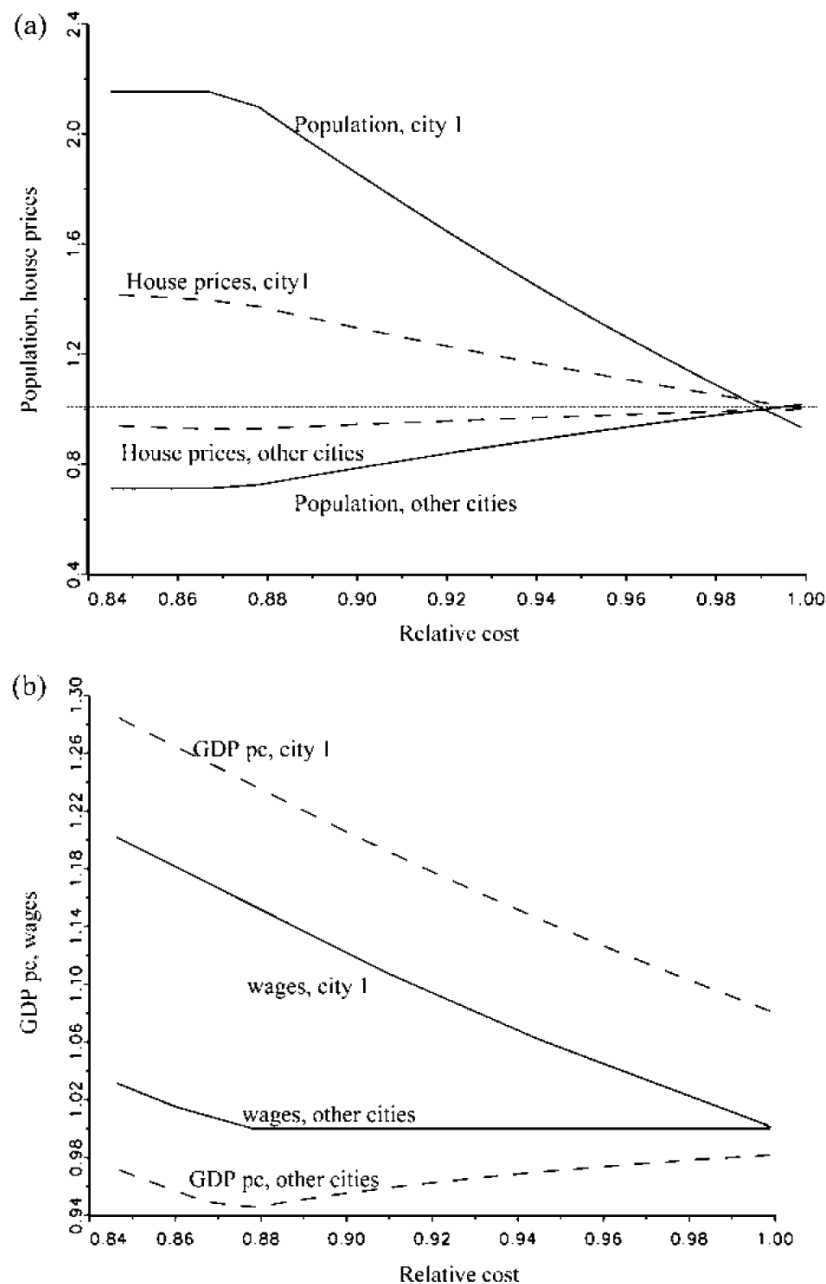


Fig 5. Productivity differences

Productivity Differences in the Internationally-Tradable Good

We turn now to our last experiment, looking at regional productivity differences in the internationally-traded good. The source of these productivity differences will not be modelled, although they could arise in several ways. For example, technological or pecuniary externalities might lead to increasing returns to scale, so the sector has high productivity in cities where it operates at large scale. However, for present purposes we simply assume that production functions differ between cities, giving city 1 an efficiency advantage in this sector.

Figs. 5a and 5b illustrate outcomes. The horizontal axis is the cost advantage of city 1, and we now assume that the internationally-traded good is skilled labour abundant, that commuting costs are the same in all cities, and that there are no transport costs on nationally-traded goods. The first effect of the productivity difference is to cause an equal proportionate increment to wages in the advantaged city (Fig. 5b). Of course, this makes the city less competitive in the nationally traded good, so causing this sector to contract and allowing internationally-traded goods production to expand. By assumption, the internationally-traded good is skill-intensive, and as the skill composition of the cities changes, so their GDPs per capita diverge as shown in Fig. 5b.

The nominal wage differential attracts in-migration, and we see from Fig. 5a that a 10% productivity differential is associated with a near doubling of the size of city 1 while

Table 4. Correlations when cities vary in productivity					
	GDP per employee	Skills	Wage rates	Density	House prices
GDP per employee	1	+	+	+	+
Skills		1	+	+	+
Wage rates			1	+	+
Density				1	+
House prices					1

Table 5. Real income changes			
Productivity change	5	10	15
Utility gain if productivity change one city	0.74	1.74	3.41
Utility gain if productivity change in all cities	1.90	3.94	6.13

other cities lose 20% of their population. There are two forces equilibrating. One is the price of non-traded goods which rise in line with wages, so increasing the cost of living in the city. The other is the price of housing. Fig. 5a indicates that a 10% productivity differential raises house prices in the city by around a third, while reducing them elsewhere by nearly 10%.

For sufficiently small efficiency differences between cities, the internationally-traded good is produced in all locations, competitiveness being maintained by wages in other cities remaining at their initial level. However, the kinks in Figs. 5a and 5b occur as other cities cease to produce the internationally-traded good. Further efficiency differences beyond this point bring no further relocation of industry or of population. Wages in other cities are no longer constrained by the need to be competitive in the internationally-traded good, and start to rise with the real income of the economy as a whole.

Summary correlations are given in Table 4, and we see positive correlations between all the variables reported, the same sign pattern as that found for Britain.

What are the real income implications of these productivity differences, and is there a 'regional problem' in this case? The experiment raises physical productivity in just one sector (of three equal sized ones) in just one location (out of five potentially different size ones). The real income gains from this productivity increase are reported in the first row of Table 5 (at the equilibrium, these gains accrue to all workers irrespective of their location). The bottom row of Table 5 gives the real income gains that would have arisen had the productivity increase occurred in all cities, not just one. If all five cities had benefited from the 15% increase in productivity, the aggregate gains to the economy would have been 2.72% greater ($6.13\% - 41\% = 2.72\%$). Of course, these numbers are only illustrative, but serve to make several points. Even though there are 'equilibrium regional disparities' and utility levels are equalized across all cities, a policy that removes the underlying reason for the disparity raises aggregate welfare; there are gains from bringing the productivity of all cities to the level of the best city. The example shows how quite small exogenous

differences between areas may be dominated by much larger endogenous responses to these differences. A 15% productivity differential concentrated in one city causes this city to be more than twice as large as others, with house prices more than 50% higher. However, removing the underlying source of the disparity (and consequently moving to a situation where all cities are the same size) yields real income gain of just 2.7% of income.

Concluding Comments

Regional disparities are commonplace and can appear remarkably large, even in geographically compact and high-income countries, as demonstrated by the UK experience. It is tempting to conclude from the mere observation of such disparities that there is market failure and a case for economic policy. This paper suggests that the case for policy must be made in a more careful way.

On the one hand, regional disparities are not necessarily associated with market failure. It is quite possible that there are equilibrium inequalities, and that no welfare gains are to be had by seeking to remove these inequalities. On the other hand, regional inequalities do have some underlying cause. Just to dismiss them on the grounds that markets are working and there are low barriers to mobility is to fail to diagnose the reasons for the inequality, and to ask whether there are gains from addressing them. As our last example showed, there may be gains from eliminating the causes of regional inequalities.

The model developed in the paper provides some examples of the way in which exogenous differences between cities translate into the differences that we observe. On the basis of these examples, it seems unlikely that skill difference alone can account for the correlations that are in the data. However, it is possible that quite small exogenous differences between regions – such as the geographical advantage of section five – can lead to large differences in per capita income, population, and house prices. If the advantage impacts differently on different sectors, then it will cause variations in the industrial structure of regions, these changing the skill composition of regions and possibly amplifying regional differences.

Regional disparities are not necessarily associated with market failure. It is quite possible that there are equilibrium inequalities, and that no welfare gains are to be had by seeking to remove these inequalities.

Of course, the theoretical model of this paper only explores possibilities, and actual differences between regions are very much more complex than those captured in the model. Our points are, first, that large apparent disparities can occur in well functioning market economies that contain no barriers to mobility or spatial externalities. And second that rigorous model-based thinking is needed to establish the bases of regional disparities, to separate out endogenous and exogenous variables, and to begin to investigate policy. As noted in the introduction, the research agenda requires developing this further to inform econometric work that can identify the sources of regional disparities.



ALONSO W. (1964) *Location and Land Use*. Harvard University Press, Cambridge, MA.

Regional Governance

Is Regional Centralism Inevitable?

The Case of the Welsh Assembly

Martin Laffin

Durham Business School, University of Durham

Is Regional Centralism Inevitable? The Case of the Welsh Assembly

Martin Laffin
Durham Business School, University
of Durham

How might elected regional assemblies in England, if any are established, work with local government? This extract draws lessons from the Welsh experience, and examines the extent to which English regional assemblies would follow a similar pattern.

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Studies journal, is available online from www.regional-studies-assoc.ac.uk.

The key theoretical and policy lesson of the Welsh experience is that regional centralism is not an inevitable consequence of devolution, indeed that local government has and can benefit from regional devolution – and recent Scottish evidence points to a

‘Partnership’ works best where there is a reasonable power balance or symmetry between the two levels of government yet the senior partner, the regional government, still has that vital threat of direction.



similar conclusion (BENNETT *et al.*, 2002). The Welsh experience also indicates that central–local government relations at the sub-nation state level are significantly less asymmetrical in power terms than central–local relations at the nation state level: Welsh local government does enjoy considerably more influence with the Assembly, than it had with the old Welsh Office. The Assembly, too, is much more dependent on local government than the Westminster government is on English local government.

Nonetheless, regional centralism and serious regional–local tensions could occur where the powers of the sub-nation state or regional authority are very limited. The Welsh

Assembly has many more functions and powers than are presently envisaged for the proposed English assemblies – at best they would have only indirect influence over health, education and social services. These limited powers are well illustrated by the striking contrasts in the size of budgets between the Welsh and the English assemblies – for example, the North East Assembly would have a degree of influence over spending of about £0.9 billion for 2.5 million people (CABINET OFFICE/DTLR, 2002, para 5.2), while the Welsh Assembly has a budget ten times greater for 2.9 million people. Thus such regional assemblies, focusing on their narrowly defined powers, are more likely to conflict with local authorities than assemblies, like the Welsh,



with a larger portfolio of functions and powers to occupy the attention of ministers and members. Such conflicts did occur between the old Greater London Council and the London boroughs and appear to be currently re-emerging in the Greater London Authority (GLA) (TRAVERS, 2002).

The Welsh comparison, too, raises questions about the partnership model underlying the 2002 regions White Paper. As JEFFREY 2002, p. 7, points out for the proposed assemblies, 'the possibility of *direction*, as in Scotland and Wales, will be severely limited'; thus they will be very, and perhaps too, dependent on local authorities. The lesson from Wales is that 'partnership' works best where there is a reasonable power balance or symmetry between the two levels of government yet the senior partner, the regional government, still has that vital threat of direction (not least through hypothecation), even though it might never be used, to ensure that local authorities do engage meaningfully with the regional level.

Another feature of Welsh devolution, and of Scottish devolution, is that a distinctive party political system emerged post-devolution. The combination of proportional representation and a new post-devolution politics has boosted the electoral fortunes of the minority parties and led to a Welsh Assembly coalition, not a Labour-dominated government as was generally expected. Inter-party competition for power prevents complacent and even arrogant one-party dominance and, not least, encouraged Assembly ministers to seek a cooperative rather than a coercive relationship with local government. However, in Wales and Scotland the presence of significant electoral support for the nationalist parties was critical in sustaining keen, interparty competition – a situation which is unlikely to obtain in any future English region where such nationalist parties do not exist. The distinctive Welsh party political system has also created new opportunities for pressure group influence. Some interests, such as in health, have organized themselves well and are having an influence, however that influence falls well short of the 'capture' of parts of the Assembly policy making apparatus. A more serious issue is raised by the fact that a sub-nation state polity, like the Welsh,

is much less competitive than a national polity as fewer groups are represented. Thus the question arises of whether regional governments are more easily captured by 'producerist' interests, though as yet the evidence for or against is very limited. Finally, devolution does not automatically resolve other problems of government. Within the Welsh Assembly, the joined-up government agenda is proceeding slowly as departmentalized, service-based approaches demonstrate considerable resilience, reinforced as they are by ministerial ambitions as well as by inflexible professional-administrative structures.

BENNETT M., FAIRLEY J. and MCATEER M. (2002) *Devolution in Scotland: The Impact on Local Government*. Joseph Rowntree Foundation, York.
 CABINET OFFICE/DEPARTMENT FOR TRANSPORT, LOCAL GOVERNMENT AND THE REGIONS (DTLR) (2002) *Your Region, Your Choice: Revitalising the English Regions*, Cm 5511. The Stationery Office, London.
 JEFFREY C. (2002) *Devolution: Challenging Local Government*. Joseph Rowntree Foundation, York.
 TRAVERS T. (2002) Decentralization London-style: The GLA and London governance, *Regional Studies* 36, 779–88.

The State of Regional Research

Strategic Gaps in Understanding
West Midlands Regional Observatory

**Scalable Vector Graphics for Regional
and Local Statistics**

Alan Smith
Office for National Statistics

Strategic Gaps in Understanding West Midlands Regional Observatory

There are a number of additional gaps in our understanding that are of strategic significance.

Regions, for all their research and intelligence, are still faced with major gaps in understanding. Regional economies are only partially understood, as companies don't keep accounts on a regional basis, and linkages are not well mapped. Large national surveys are not robust at small geographical levels. Some sectors suffer from very poor data availability. This extract, taken from a publication packed with regional intelligence, looks at some of what we *don't* know in the West Midlands.

This extract is taken from *Real Lives – Real Issues: A State of the Region Report 2004*, published by the West Midlands Regional Observatory and used with permission.

Our review of interconnections has allowed us to highlight many of the most important of the regions needs for further research. However, there are a number of additional gaps in our understanding that are of strategic significance, even if they do not necessarily cut across the remits of the main regional strategies.

Widening our understanding of regional wealth

Public services are not traded for profit but paid for indirectly through taxes, and so form only a small part of regional GVA. This creates two important problems for our understanding of regional wealth creation. First, the actual scale of the public services' contribution to our economic well-being in terms of services delivered (like health and education); and second, the regional economic dynamic provided by delivery of public services to the rest of the country (like the decentralisation of functions from Whitehall, being reported on by Sir Michael Lyons). However, national economic analysis is increasingly conducted in terms of Gross Value Added (GVA) – essentially a measure of profitability and wages. GVA will also be the basis on which the Treasury will measure progress in reducing regional economic disparities.

Two very recent reports have a bearing on this issue, and also have wider implications for the future work of the Observatory and its regional partners:

The McLean report to ODPM deals with the regional distribution of Government expenditure. It indicates that the West Midlands Region has consistently had the lowest amount of regionally relevant public expenditure (i.e. spent in the region or for that particular region's benefit – or both) per head of any UK region since estimates were first made (in the 1970s); but also that the source departmental estimates are of very variable quality. We understand that the Government will seek both to improve the statistical base and will also require departments to break down their spending proposals by region in preparation for the 2005 Budget. Since around three-quarters of Government spending is regionally relevant, this 'mainstreaming' of the regional dimension of their spending decisions is potentially of great policy significance.

The Allsopp Review reported to the Chancellor on the information needs of regional policy, particularly in the light of the Government's commitment to reducing regional disparities. This report endorses the McLean report's findings on the need to understand overall patterns of expenditure and investment, but its primary focus is on better GVA estimates at regional and sub-regional levels. A key conclusion is the need for more of this work to be done in the regions and in close liaison with regional agencies, in particular Government Offices, Regional Development Agencies, Regional Observatories, local authorities and other relevant bodies and individuals.

The Government appear to have taken up the call by some commentators to approach regional policy more holistically, looking at the impact of its programmes across the board, rather than just those programmes with a 'regional policy' label. This difference is significant: all regionally relevant public expenditure accounts for around 30% of GDP and regional development programmes only about one-tenth of this amount. There is clearly an agenda here of long-term strategic significance, of shared interest to Government Office, Advantage West Midlands, WMLGA and the Observatory. There are other agencies that will also have important contributions to make, requiring a process for their involvement to be devised.

Regional economic structure and dependencies

There is a need for fuller information and understanding of the contributions to the regional economic dynamic of the various sectoral components of GVA. For example knowledge of the pattern of imports and exports to and from the region, and of inputs and outputs between sectors within the region would help us understand interdependencies, strengths and vulnerabilities. Such linkages are particularly important to our understanding of the workings of the economic clusters that are a fundamental aspect of the RES, and are crucial to the exploitation of the high technology corridors.

A particular new challenge for regional economic and spatial strategies arises from developments in the field of transport policy. Over recent years companies have been taking advantage of improving communications (transport and telecoms) to disperse from congested inner cities. But increasing road congestion and the possibility of direct road pricing could change the balance: how will this affect business locational choices and what will be the implications for clusters? Will the sum of commercial choices add up to the best result for the region? What are the implications for the high technology corridors?

The relationship of economic, spatial, infrastructure and cultural aspects in 'the new economic geography' means that there

would be benefit in wider involvement and ownership. This could take the form of joint commissioning of a regional economic model which would then become a shared resource.

Effects of South East growth areas on RES and RPG

The Government's proposals for large-scale Growth Areas in the South-East are likely to affect the West Midlands Region. The scale of additional house building implied by the interim Barker Review could be ten times that of the Growth Areas, with correspondingly large-scale consequences. At present the Growth Area proposals are still quite sketchy and the Barker Review not decided upon, but the effects on housing and commercial locational choices (especially in the south east of the region) and on public resources for infrastructure and services are potentially very significant.

The need to monitor and engage with these processes is underlined by the spate of proposals for implementation of the Sustainable Communities Plan. Northern and Midlands Growth Areas have been proposed as counterparts to the Growth Areas in the South-East.

The prospective availability of better regional and sub-regional information will allow the implications for the West Midlands Region to be better understood, and would provide the necessary input to a regional economic model. With or without such tools, investigation of the effects of rapid growth in neighbouring regions to the south and east is an area of common interest for both Advantage West Midlands and the Regional Assembly.

Quality of life indicators

ODPM's Sustainable Communities report proposes some general requirements which were produced by a joint central/local government working group, and these need to be translated into a suitable range of indicators. As an example public transport accessibility features on this list, and accessibility of services like healthcare and schools has a strong bearing on quality of life. Measures of public transport accessibility of a range of facilities are intended to be developed as part of the



Regional Transport Strategy and Local Transport Plans, but because of the need to link economic, environmental and social measures this should perhaps be a joint exercise with a wider remit.

A general problem is the paucity of information on the influence of environment on quality of life. Much of what there is has been gathered with a particular client in mind (e.g. tourism, culture, etc.), and there are significant gaps relating to the age of data, the availability of time-series, and of consistent regional or sub-regional comparisons.

A key component of quality of life in parts of inner urban areas and some outer estates is the way in which a social milieu of economic dependency, poor health, low expectations, low achievement, limited lifestyles and petty crime has become ingrained and self-sustaining. This phenomenon has been tackled successfully in some areas (e.g. Castle Vale).

The region needs to develop a clear set of indicators for the quality of life of both urban and rural communities. Additionally, we need to develop a deeper understanding of attitudes to and experiences of quality of life and the relationships between these and locational choice, social polarisation and deprivation. This will give us the information to support the coordinated actions across a broad front necessary for policy success.

A general problem is the paucity of information on the influence of environment on quality of life.

Scalable Vector Graphics for Regional and Local Statistics

Alan Smith

Office for National Statistics

Graphs and maps can make statistics more accessible. But how best to disseminate data? Scalable Vector Graphics, as this article explains, can produce powerful graphs and maps that download very quickly, offer interactivity, and work well at different scales. Could this be the future for making data available over the Internet?

Kindly provided for this publication by the Office for National Statistics.

Never before has so much data been freely available to users of Regional and Local Statistics. Services such as ONS' Neighbourhood Statistics are a good advert for the ability of the Internet to deliver high volume, small area statistics to a wide user community.

Images and the Internet

The Internet has always excelled at the display and linking of textual information – including the use of statistical tables. However, the Internet has earned a less than wonderful reputation for the way it serves images, particularly the type of 'data graphics' often needed by users of statistics to understand patterns in datasets.

Scalable Vector Graphics

Scalable Vector Graphics (SVG) is a relatively new (non-proprietary) file format based on XML (eXtensible Markup Language). To view SVG content, you need to install an appropriate 'plug-in' for your Internet browser. These are free and links are provided at the end of this article.

Once installed, have a look at a few sites that contain SVG graphics (links provided at the end of this article) and the advantages of the format to the end user become immediately obvious:

- 1 File sizes tend to be small – a more intelligent way of serving images than traditional pixelated images.
- 2 Images are scalable – they can be resized to fit any window and print well at different sizes.

- 3 Rapid interactivity within the browser – there's no need to wait for a web server to keep refreshing the graphic. With SVG, interactivity can all be pre-loaded into the browser.
- 4 SVG allows for different types of graphic to be linked together. For example, traditional software tools make it very difficult to produce images that combine a map and a chart – SVG makes it easy and allows both graphics to be driven from the same data source.

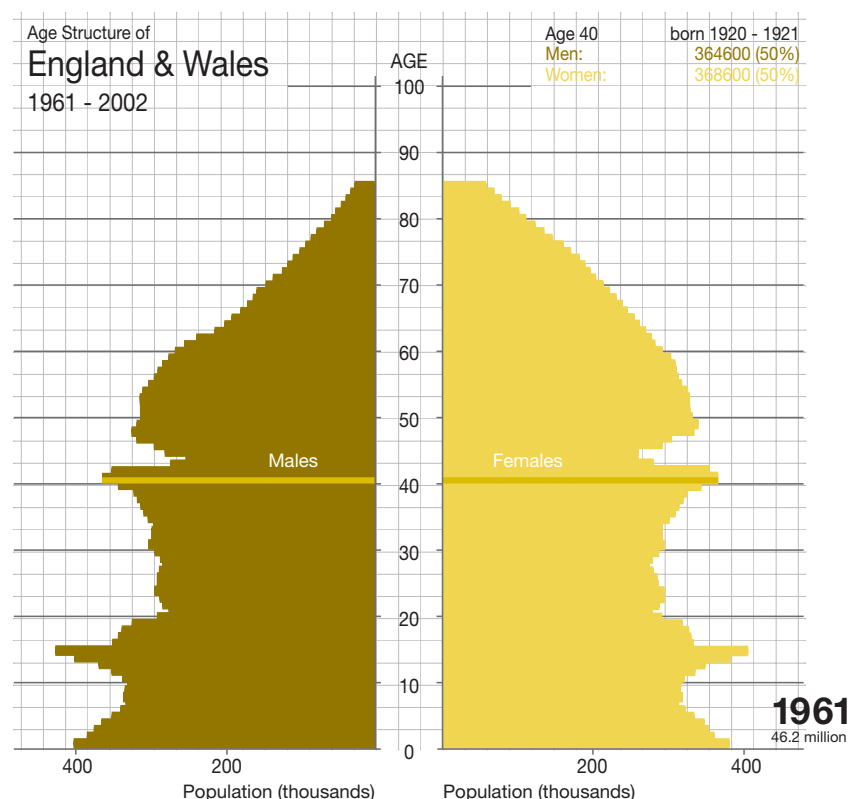


Fig 1. SVG population pyramid – rapid interactivity with a very small file size
Source: Population Estimates Unit, ONS

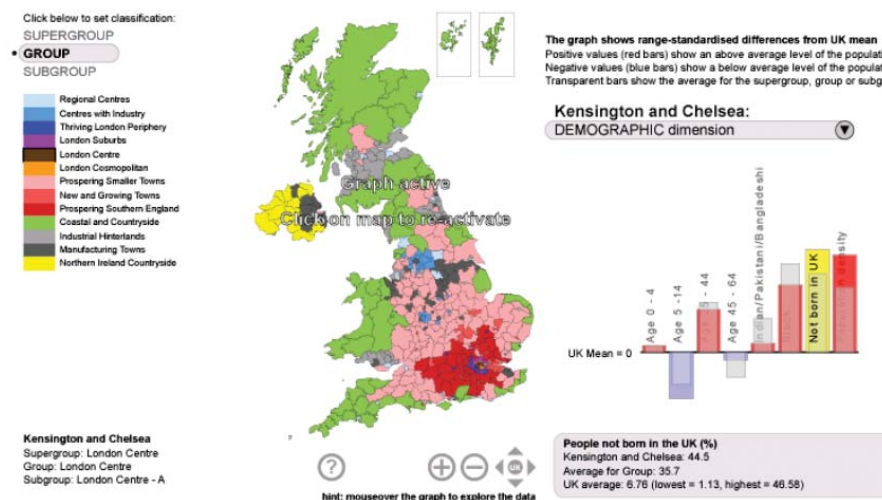


Fig 2. ONS Area Classification – combining maps and charts is easy with SVG

There are other advantages which will appeal more to the producer of the graphical content:

- 1 SVG graphics can be data driven, either by a server or external data file. Producing revised images using updated data is therefore easy and encourages a 'template'-based approach.
- 2 SVG can be authored using simple text editors – there are no expensive proprietary tools needed to begin making content.
- 3 SVG is XML - a standards-compliant language that interfaces nicely with other web standards (JavaScript, CSS, XSLT etc)

SVG and the Future

Will SVG be around in 5 years time?

It's impossible to say – but one thing that we can be certain about is that the approach SVG uses – data driven, vector graphics will live on in one form or another. Our own experiences at ONS (and the feedback we have received from our users) have led us to the conclusion that SVG has a significant part to play in the data graphics we will be producing over the coming years. This is not to say that it is the perfect solution to all things graphical – learning where and when to implement SVG is an important part of the process.

Learning More

If you would like to find out more about SVG, look at more examples and begin to get a feel for how to develop content, please contact us on svg@ons.gov.uk – we'll pop a complimentary CD-Rom in the post to you

if you provide your mailing address. In the meantime, we have provided a few links below to whet your appetite.

Office for National Statistics – Links

Neighbourhood Statistics
<http://www.statistics.gov.uk/neighbourhood>

SVG Population Pyramid
http://www.statistics.gov.uk/population/estimates/svg_pyramid/default.htm

SVG Area Classification map+chart
http://www.statistics.gov.uk/about/methodology_by_theme/area_classification/la/svg/index.html

Other Links

Adobe SVG Viewer software
<http://www.adobe.com/svg/viewer/install/main.html>

Official World Wide Web Consortium SVG pages
<http://www.w3c.org/Graphics/SVG/>

Glossary

Barnett Formula

Used to determine how the size of the budgets of the devolved administrations in Scotland, Wales, and Northern Ireland are adjusted following a change in spending levels in England.

Basic Skills

In the UK, taken as the 'ability to read, write, and speak in English/Welsh and to use mathematics at a level necessary to function and progress successfully at work and in society in general' (Basic Skills Agency).

Business Angel

Private individuals who invest directly in private companies in return for an equity stake and perhaps take a seat on the company's boards.

Business Link

Business support, advice, and information service, sponsored by the DTI. Responsibility for running Business Link transferred to Regional Development Agencies following Spending Review 2004.

BVCA

British Venture Capital Association.

Claimant Unemployed

Those claiming unemployment related benefits, i.e. Jobseeker's Allowance. This figure is usually lower than the International Labour Organisation definition of unemployment, as it excludes some who are seeking work but not claiming the allowance.

CSS

Cascading Style Sheets, used to control presentation of computer files on screen and elsewhere.

DEFRA

Department for Environment, Food and Rural Affairs.

DTI

Department of Trade and Industry.

Economic Census

US Census of companies run every five years, which aims to provide a detailed picture of their national economy.

Equity Gap

Shortage of venture capital that is available to enterprises seeking to raise funds within a certain range. For example, an equity gap between £250000 and £500000 would mean firms looking to obtain this amount of capital could expect to have problems finding a suitable source of finance.

Floor Target

Target for the performance of the worst performing areas or bodies.

FPE

Factor Price Equalisation is the tendency for international trade to lead to convergence in factor prices such as rent, wages, and interest rates.

GINI Coefficient

A statistical measure of inequality.

Greater South East

Name used to describe grouping of London, the South East, and East of England Government Office Regions.

GVA

Gross Value Added, defined as Gross Domestic Product excluding taxes (less subsidies) on products; the headline measure of regional economic activity. Gross Domestic Product is a measure of real output produced by activities located in a country (or, for our purposes, region).

HBAI

Households Below Average Income survey, run annually by the Department of Work and Pensions (DWP). The survey gives information on income distribution in the UK, using the DWP Family Resources Survey and the British Household Panel Survey.

HE

Higher Education.

Higher-Level Qualifications

Degree or higher degree, NVQ level 4 or 5, or equivalent.

ILO Unemployment

Unemployment measured using the International Labour Organisation definition – those of working age not employed and seeking work.



Index of Multiple Deprivation

Super Output Area level measure of deprivation published by the Office of the Deputy Prime Minister combining individual measures across seven domains – income, employment, health and disability, education, skills and training, housing and services, the living environment, and crime.

Inner Region Core

London, South East, and the East of England Government Office Regions c.f. Greater South East.

Input-Output

Study of flows of goods and services between different sectors of the economy.

IT

Information Technology

Less-Favoured Regions

In the English context, used to denote those regions outside of London, the South East, and the East of England.

LEVEL 3 Qualifications

NVQ level 3, 2 or more A-levels or equivalent, GNVQ advanced, or other similar level qualifications.

LEVEL 4 Qualifications

NVQ level 4, first degree, diploma in higher education, teaching qualification, or other similar level qualifications.

LEVEL 5 Qualifications

NVQ level 5, or a higher degree.

Local Strategic Partnership

Non-statutory, multi-agency body, which matches local authority boundaries, and brings together public, private, and non-profit making organisations, with the primary aim of promoting local development.

LSC

Learning and Skills Council.

Neighbourhood Statistics

A web-based service run by the Office for National Statistics giving access to statistics about small areas.

ODPM

Office of the Deputy Prime Minister

OECD

Organisation for Economic Cooperation and Development

ONS

The Office for National Statistics

Productivity

Amount of output per unit of input. Productivity is often expressed in terms of labour input (such as hours worked), but can look at inputs such as capital or land, or at all inputs (total factor productivity).

PSA

Public Service Agreement.

R&D

Research and Development.

RDA

Regional Development Agency.

RES

Regional Economic Strategy.

RPG

Regional Planning Guidance.

RSA

Regional Selective Assistance; this has now been replaced by Selective Finance for Investment in England.

SIC

Standard Industrial Classification.

SME

Small and Medium Enterprises, defined by the European Union as those employing fewer than 250 people.

Spending Review

Biennial Treasury review of Departmental spending over a three year period.

Structural Funds

European Union funding aimed at the economic development of sub-regions with lower than average GVA.

Super Output Area

2001 Census-based stable statistical reporting unit, containing an average of 1500 residents at the lower level.

SVG

Scalable Vector Graphics.

TTWA

Travel to Work Area.

Working Age

Currently 16-65 for men and 16-60 for women.

XSLT

Extensible Style Sheet Language Transformations.



www.regionalobservatories.org.uk